Preliminary Prospectus Dated February 27, 1973 — № 069

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

Secondary Offering

Leave file please

This is a preliminary prospectus relating to these securities, a copy of which has been filed with the Ontario Securities Commission but which has not yet become final for the purpose of a distribution to the public. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time a receipt is obtained from the Ontario Securities Commission for the final prospectus.

MDS Health Group Limited

(Incorporated under the laws of the Province of Ontario)

225,000 Common Shares

(without par value)

The common shares being offered by this prospectus are being sold by the Selling Shareholders named under the heading "Selling Shareholders" on page 8. **No part of the proceeds from the sale of these shares will be received by MDS Health Group Limited ("MDS").**

There is no market for the common shares of MDS and the price of this offering was determined by negotiation between the Selling Shareholders and the Underwriter. **The common shares offered by this prospectus are speculative. Reference is made to the heading "Speculative Nature of Shares" on page 6.**

Price: $ • per share

	Price to Public	Underwriting Commission	Proceeds to Selling Shareholders(1)
Per Share			
200,000 Underwritten Shares......	$ •	$ •	$ •
25,000 Optioned Shares..........	(2)	(2)	•
Total			
200,000 Underwritten Shares......	$ •	$ •	$ •
25,000 Optioned Shares..........	(2)	(2)	•

(1) 200,000 common shares are underwritten and the balance of 25,000 common shares are under option to the Underwriter as referred to under the heading "Plan of Distribution" on page 7. The Selling Shareholders will receive proceeds from the common shares under option only to the extent that the option is exercised. The figures shown are before deduction of expenses of offering payable by the Selling Shareholders, estimated at $24,000.

(2) The option on the 25,000 common shares is exercisable at a price of $ • per share and the 25,000 common shares may be sold to the public at a price or prices not exceeding $ • per share.

We as principals, conditionally offer these common shares through registered securities dealers, subject to prior sale, if, as and when accepted by us in accordance with the conditions contained in the Underwriting Agreement referred to under the heading "Plan of Distribution" on page 7 and subject to approval of all legal matters on behalf of the Selling Shareholders by Fasken & Calvin, Toronto and on our behalf by Shibley, Righton & McCutcheon, Toronto. Orders will be received subject to rejection or allotment in whole or in part and the right is reserved to close the order book at any time without notice. It is expected that definitive share certificates will be available for delivery on or before March •, 1973.

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THE COMPANY

MDS Health Group Limited ("MDS") was incorporated under the laws of the Province of Ontario by articles of incorporation dated April 17, 1969 under the name Medical Data Sciences Limited. Articles of amendment were issued to MDS on December 24, 1969, August 24, 1971, and February 26, 1973, changing its capital, changing its name to its present name and converting it to a public offering company. MDS carries on business directly and through five active subsidiaries. In this prospectus MDS and its subsidiaries are sometimes collectively referred to as the "Company". The Company operates a network of laboratories providing testing services to physicians, hospitals, nursing homes and others and offers other services in the health care field. The head office of MDS and its principal place of business is located at 30 Meridian Road, Rexdale, Ontario.

BUSINESS OF THE COMPANY

History

MDS was founded to enter the developing field of preventive medicine by offering laboratory testing and a health screening program to a diverse clientele utilizing modern automated analytical equipment. MDS found that with developing medical technology private medical laboratories were playing an increasing role in providing diagnostic services to physicians. MDS decided to establish a network of medical laboratories to meet increasing demand for medical testing facilities and to form a base from which to develop its health screening program.

Laboratory Operations

MDS began to acquire existing medical laboratories in selected locations in Ontario and Quebec to form a basis on which to develop its own network of laboratories.

Once a base had been established by acquisition, the Company concentrated on the expansion of the acquired laboratories and commenced to open new laboratories and specimen collection stations in areas not already served by private laboratories.

The Company now operates Canada's largest network of medical laboratories consisting of five main testing laboratories, 19 regional laboratories processing a wide range of routine tests, 29 satellite laboratories handling a limited range of blood tests and twelve specimen collection stations. The following is a summary of laboratories acquired and opened in the calendar years indicated:

SUMMARY OF UNITS IN OPERATION

	1969	1970	1971	1972	1973 (to February 15)
Laboratories acquired	8	9	2	4	—
Laboratories and specimen collection stations opened	—	4	9	24	5
Total in operation	8	21	32	60	65

Data produced by the Company's testing facilities is utilized by physicians to diagnose and treat disease, to monitor administration of medication and to generally aid in decisions regarding medical treatment. The Company believes it provides the physician with rapid, accurate, comprehensive laboratory services. Each of the Company's laboratories is under the control of a fully qualified specialist in laboratory medicine. The Company also performs various tests for over 200 Canadian organizations and institutions including hospitals and public health laboratories.

Some 300 different tests are performed in the Company's medical laboratories although approximately 100 tests account for 80-90% of the total test volume. The Company's laboratories offer clinical evaluations in the following areas: (1) Biochemistry; (2) Cytology (study of cells, e.g., Pap smear testing); (3) Hematology (study of blood cellular elements); (4) Histology (study of body tissues); (5) Microbiology (study of micro-organisms and their drug sensitivity); (6) Radioisotope Analysis; (7) Serology (study of immune reactions); (8) Blood group determination; (9) Pregnancy tests; (10) Urinalysis.

The Company has also established a reference laboratory which processes tests which are more complex and difficult to perform. Many of these complex tests were not handled in Canada previously and were being referred by doctors and hospitals to laboratories outside the country. The Company also maintains a research department to improve present methodologies and develop new testing techniques.

The following is a list of the Company's laboratory and collection station network. All such locations are in leasehold premises:

Locations—Ontario

AJAX
- 174 Harwood Avenue

BARRIE
- 121 Wellington Street West
- 39 Collier Street

BELLEVILLE
- 220 Dundas Street East

BROCKVILLE
- 6 Glenwood Place

BURLINGTON
- 672 Brant Street

BYRON
- 39 Queen Street

CHATHAM
- 382 Wellington Street

COBOURG
- 256 Division Street North

FORT ERIE
- 214 Jarvis Street

GUELPH
- 155 Suffolk Street

HAMILTON
- 452 Main Street East
- 600 Upper Wellington Street
- 195 Upper St. James Street

KINGSTON
- 240 Brock Street

KITCHENER
- 170 Victoria Street South
- 453 Park Street

LINDSAY
- 228 Kent Street

LONDON
- 528 Dundas Street
- 262 Oxford Street

MILTON
- 69 Main Street

OAKVILLE
- 129 Reynolds Street North
- Hopedale Mall
- 323 Kerr Street

OSHAWA
- 300 King Street West
- 247 Simcoe Street North

OWEN SOUND
- 945 Third Avenue East

PETERBOROUGH
- 351 Charlotte Street

PORT COLBORNE
- 228 Catherine Street

PRESTON
- 163 King Street

RICHMOND HILL
- 22 Richmond Street

ST. CATHARINES
- 145 Queenston Street
- 157 Ontario Street
- 15 Welland Avenue

ST. THOMAS
- 388 Talbot Street

SMITHS FALLS
- 28 Main Street West

STONEY CREEK
- 15 Mountain Avenue South

STRATFORD
- 117 Waterloo Street

SUDBURY
- 151 Larch Street
- 1191 Lansing Avenue

THOROLD
- Pine Street Shopping Centre

TIMMINS
- 38 Pine Street North

TORONTO
- 30 Meridian Road, Rexdale
- 170 St. George Street
- 2698 Jane Street
- 2221 Keele Street
- 2917 Bloor St. West
- 250 Lawrence Avenue West
- 901 O'Connor Drive
- 1333 Sheppard Avenue East
- 25 Leonard Avenue
- 2323 Yonge Street
- 208 Bloor Street West
- 586 Eglinton Avenue East
- 272 Roncesvalles Avenue
- 591 Parliament Street
- 5 Walmer Road
- 3269 Bloor Street West

WALLACEBURG
- 302 James Street

WELLAND
- 80 King Street

WHITBY
- 519 Dundas Street East

Locations—Quebec

MONTREAL
- 4691 Van Horne Avenue
- 5845 Cote des Neiges
- 666 Sherbrooke Street West
- 5778 Descelles Avenue

United States Operations

In April 1972, MDS entered into an agreement with Diamond Shamrock Corporation of Cleveland, Ohio and its Canadian subsidiary, Diamond Shamrock Canada Ltd., to jointly develop a network of medical laboratories in the United States. Under the agreement, Diamond Shamrock Canada Ltd. subscribed and paid for 200,000 common shares of MDS for $1,000,000 and Diamond Shamrock Corporation and MDS incorporated Medical Sciences Laboratories Inc. ("MSL"). Diamond Shamrock Corporation and Diamond Shamrock Canada Ltd. agreed that, if in their opinion, funds are required prior to April 5, 1974 for the development of MSL, they will subscribe up to U.S. $3,000,000 for shares of MSL and will transfer to MDS one-third of such shares at the issue price therefor in exchange for MDS common shares at U.S. $5 per share so that MDS will have a participation in MSL equal to one half of the participation of Diamond Shamrock Corporation. MDS has the right to maintain such participation after April 5, 1974. MDS agreed to provide certain management services to MSL for a minimum

period of three years, approximately at cost. To date, the activity of MSL has been to evaluate a number of possible acquisitions and to study methods of operating laboratories in several States. MSL has leased 6,000 square feet of space in Cleveland to serve as its main laboratory facilities and corporate head offices. Reference is made to item 1 under the heading "Material Contracts" on page 14.

Health Screening

The Company now provides through health screening a comprehensive "health audit" for senior executives of 54 Canadian corporations on an annual basis. Health screening is a planned sequence of procedures and tests designed to aid in the early detection of asymptomatic disease in apparently well individuals. Health screening includes a thorough assessment by a qualified internist to give an analysis of the executive's health status. These results are given to the executive's physician for interpretation. In addition, the Company provides examinations of applicants to 53 insurance companies whose medical officers have approved the use of the Company's services for underwriting purposes. The Company operates screening clinics in Toronto, Montreal, St. Catharines, Hamilton and Kitchener. During 1972 the Company examined approximately 11,000 life insurance candidates and performed approximately 1,200 executive and pre-employment health screens.

Home Care Service

The Ontario Government operates an extensive Home Care Program providing nursing and support care services for patients in their own homes which is designed to reduce the demand for high cost, active treatment hospital beds.

In August 1972 the Company was awarded a contract by the Ontario Government to start up and administer a home care program in Halton County, Ontario. This program is the first Ontario Government contract to private enterprise for direct health care services. The Company subcontracts certain of the work to the Victorian Order of Nursing, the Canadian Red Cross Society and physio and speech therapists. Up to February 15, 1973 approximately 157 individuals have been treated under the program.

Pharmaceuticals

In September 1972, the Company acquired two small Montreal based drug distributors. Reference is made to item 5 under the heading "Material Contracts" on page 14. During 1972 and 1973 the Company also acquired an interest in Canapharm Industries, Inc. ("Canapharm"), which had been incorporated to purchase the assets of two companies engaged in the manufacture and marketing of generic drugs. Canapharm's activities are still in a development phase and to date its operations have not been profitable. Its value in the future will depend on the success of a number of new products to be marketed. Reference is made to item 4 under the heading "Interest of Management and Others in Material Transactions" on page 12.

Management and Consulting Services

MDS Professional Services Limited ("Prof") was incorporated in 1972 as a subsidiary of MDS to assist medical and dental practitioners in the planning, development and management of medical buildings, group practices and community health clinics. As a means of developing these services Prof has acquired all the outstanding shares of Leythorn Developments Limited, a design and construction management company, Polycon Development Limited, a contracting company, and Brokers' Consultants Limited, a company offering financial planning services, upon the terms set out in items 2, 3 and 4 under the heading "Material Contracts" on page 14. Prof's activities are in a developmental phase.

Employees

The Company employs a permanent staff of over 400 employees. Because of the scientific nature of the work approximately half of the employees have recognized professional or technical training.

Medical Advisory Board and Medical Consultants

The Company employs or retains the services of 44 specialists who act as medical directors of laboratories or provide diagnostic consulting services in laboratory medicine. These specialists are either physicians specializing in laboratory medicine or are laboratory scientists. A Medical Advisory Board of 15 members is selected from these specialists. The primary responsibility of the Medical Advisory Board is to ensure that the Company maintains medical standards and keeps abreast of new developments in laboratory medicine. In addition 52 other physicians are associated with the Company in health screening, electrocardiography, radiology and other specialized fields.

Government Regulation

In the Province of Ontario, where the Company does most of its laboratory work, the Ontario Health Insurance Plan ("OHIP") an agency of the Ontario Government, is currently paying for in excess of 80% of the laboratory tests performed by the Company. Rather than billing the patient directly, the Company has elected to bill OHIP for services performed and to accept 90% of the current Ontario Medical Association fee schedule as full payment.

The Ontario Government has expressed concern about rising health care costs in the Province and although laboratory fees are only a small portion of the total dollars paid annually by OHIP, it may be assumed that the cost of laboratory services will be given careful scrutiny by the Ontario Government in any effort to improve the effectiveness of provincial health care expenditures or to reduce the cost to the Province of such services.

Late in 1972, The Public Health Act (Ontario) was amended to require medical laboratories to be licensed annually and to conform to certain standards. The Company believes that it will be able to conform to these standards. The Company has applied for licenses and has no reason to believe that licenses will not be issued and renewed in the normal course.

Under The Public Health Act (Ontario) the Director of Laboratory Licenses has broad discretionary powers. Among other powers he may refuse to issue a new license where, in his opinion, there is no public need in an area where it is proposed to establish a new laboratory. Consequently the ability of the Company to expand its laboratory operations by opening new laboratories in Ontario could be restricted.

In the Province of Quebec, where the Company has four laboratory locations, the provincial government does not generally pay for laboratory services performed by private medical laboratories. Under the Public Health Protection Act enacted by the Quebec National Assembly in December 1972, private laboratories are required to be licensed annually. Under the Act, the Company's Quebec subsidiaries are entitled to licenses as of right until December 1973 and the Company has no reason to believe that the licenses will not be renewed in the normal course.

Most of the Company's other operations are regulated by Federal, Provincial or State legislation.

Competition

The medical laboratory business in Canada has in the past been regionalized with each region being dominated by one or two laboratories or by a group of laboratories. Although the Company believes that it has a dominant position in most of the regions in Ontario in which it operates, there is extensive competition. The Company operates four locations in Montreal where there are numerous other medical laboratories offering competitive services and the Company is a small factor in the Montreal market. The Company also faces competition from hospitals and from government agencies such as public health laboratories which provide services similar to those provided by the Company.

Properties

The Company's principal office and laboratory and warehouse is located on leased premises consisting of 27,400 square feet at 18 and 30 Meridian Road, Rexdale, Ontario. The Company's four other major laboratories are located on leased premises. These consist of:

4,200 square feet at 151 and 176 Larch Street, Sudbury, Ontario.
5,200 square feet at 157 Ontario Street and 15 Welland Avenue, St. Catharines, Ontario.
2,300 square feet at 452 Main Street East, Hamilton, Ontario.
1,500 square feet at 4691 Van Horne Avenue, Montreal, Quebec.

A summary of leasehold obligations are set forth in note 10(c) to the Notes to the Consolidated Financial Statements.

SPECULATIVE NATURE OF SHARES

The common shares offered by this prospectus are speculative. Although the Company commenced operations in April, 1969, the Company earned its first profit in its 1971 fiscal year. While it is anticipated that the Company's operations will continue to be profitable, no assurances can be given in this regard. As reflected in the Consolidated Statement of Deficit on page 17, the Company had a deficit of $246,000 at October 31, 1972. Reference is made to the heading "Dividends" on page 9 for restrictions on the payment of dividends on the common shares of the Company.

The Company derives in excess of 80% of its revenue from OHIP, an agency of the Ontario Government, and accordingly its future revenues and profitability could be affected by changes in Government policy. Reference is made to the heading "Government Regulation" on page 6.

Reference is also made to the headings "Pending Legal Proceedings" on page 12 and "Competition" on page 6.

The book value (excluding "excess of amounts paid over the value of the net tangible assets acquired on the purchase of shares of companies and assets of businesses") of the outstanding common shares of MDS is approximately 24¢ per share. Accordingly, purchasers of the common shares offered hereby will experience an immediate dilution of approximately $ • per share when compared to book value.

CONSOLIDATED CAPITALIZATION OF THE COMPANY

	Authorized	Outstanding on October 31, 1972	Outstanding on February 15, 1973
Bank indebtedness[1]	—	$ 305,202	$ —
Long term debt:			
Notes payable[2]	—	92,500	22,500
10% debentures, due May 15, 1975[3]	—	799,160	799,160
Capital stock[4][5]			
8% convertible, cumulative, non-voting, non-participating, redeemable preference shares with a par value of $5 each	400,000 shs. ($2,000,000)	55,046 shs. ($275,230)	55,046 shs. ($275,230)
Common shares without par value	3,750,000 shs.	2,106,519 shs. ($3,638,057)	2,106,585 ($3,638,255)

NOTES:

(1) The bank indebtedness at October 31, 1972 was secured by an assignment of accounts receivable. MDS has arranged a new operating line of credit of $1,300,000 as well as a term loan for $600,000 with a Canadian chartered bank. Both loans are secured by an assignment of accounts receivable. The term loan is repayable in equal monthly instalments over five years from the date of advance. Advances under the term loan are to be used to repay certain unsecured notes payable accounted for as "current portion of long term debt" on the Consolidated Balance Sheet on page 16. As part of the loan agreement, a warrant to purchase common shares was issued to that bank (refer to the heading "Rights to Acquire Common Shares" on page 10). In addition to the usual conditions MDS has agreed to maintain a minimum working capital of $250,000 which is defined so as to exclude debt incurred on the purchase of businesses that is more than 90 days from maturity. Repayment of both loans is guaranteed by four subsidiaries.

(2) These notes represent balances payable for acquisitions of shares and assets of laboratory businesses and which bear interest at rates varying from 7% to 8% and are due from December, 1973 to December, 1975. Reference is made to note 7 of the Notes to the Consolidated Financial Statements on page 20 with respect to certain conditions attached to these notes.

(3) These debentures are secured by a floating charge on the undertaking, properties and assets of MDS subject to any security granted for bank indebtedness. The holders of $80,975 principal amount of these debentures have unconditionally waived the receipt of any interest otherwise due to them.

(4) Reference is made to the heading "Rights to Acquire Common Shares" on page 10 for particulars of common shares reserved for issue.

(5) The holders of 13,000 preference shares have indicated their intention to convert such preference shares into 13,000 common shares and to sell such common shares to the Underwriter. Reference is made to the heading "Selling Shareholders" on page 8.

(6) Reference is made to note 10(c) to the Notes to the Consolidated Financial Statements on page 22 for particulars of lease obligations.

(7) The minority interest in Laboratoires MDS Ltée, a consolidated subsidiary, is not a material amount.

PLAN OF DISTRIBUTION

Pursuant to an agreement (the "Underwriting Agreement") dated March •, 1973 made between MDS, the Selling Shareholders and MerBan Securities Limited (the "Underwriter"), the Selling Shareholders have agreed to sell and the Underwriter has agreed to purchase not later than March •, 1973, 200,000 issued common shares (the "Underwritten Shares") of MDS offered by this prospectus for a price of $ • per share payable in cash to the Selling Shareholders against delivery of share certificates therefore and subject to the terms and conditions set forth in the Underwriting Agreement and subject to compliance with all necessary legal formalities. The obligations of the Underwriter under the Underwriting Agreement may be terminated at its discretion on the basis of its assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriter is committed to take up and pay for all the Underwritten Shares if any are taken up.

Pursuant to an agreement dated March •, 1973 certain of the Selling Shareholders have granted to the Underwriter an option to purchase all or any part of 25,000 issued common shares (the "Optioned Shares") of MDS, exercisable, subject to the purchase by the Underwriter of the Underwritten Shares, at any time and from time to time up to March 31, 1974 at a price of $ • per share. The Optioned Shares are offered by this prospectus.

The common shares of MDS offered by this prospectus will be offered to the public in Ontario and Quebec only through registered securities dealers at a price or prices not exceeding the applicable offering prices to the public set forth on the face page of this prospectus.

COMMON SHARES

The holders of common shares of MDS are entitled to one vote per share at all meetings of shareholders, to receive dividends thereon when and as declared by the board of directors and, subject to the preferential rights attaching to any other shares of MDS, to share rateably in the net assets of MDS in the event of any liquidation, dissolution or winding up. The holders of common shares, as such, have no pre-emptive, conversion or subscription rights. The common shares offered by this prospectus are fully paid and non-assessable.

55,046 8% convertible, cumulative, non-voting, non-participating, redeemable preference shares with a par value of $5 each (the "8% preference shares") of MDS are outstanding. On liquidation, dissolution or winding up of MDS, the holders of the 8% preference shares are entitled to an amount equal to the amount paid up thereon plus all accrued and unpaid dividends, if any, before any amount is paid to the holders of common shares. The holders of the 8% preference shares have the right at any time to convert their shares into common shares on a share for share basis. Reference is made to the heading "Selling Shareholders" on page 8 for particulars of the intended conversion of 13,000 8% preference shares. In the event of default in payment of four quarterly dividends, the holders of the 8% preference shares are entitled to one vote per share at all meetings of shareholders until all dividend arrears are paid.

SELLING SHAREHOLDERS

The names of the Selling Shareholders of the common shares of MDS, the number of common shares now owned by them, the number of common shares to be sold or optioned by them and the number of common shares to be owned by them after this offering, directly or indirectly, are set forth in the following table:

Name and Address	Number of Shares owned	Percentage of Class owned	Number of Shares to be sold	Number of Shares to be optioned	Number of Shares to be owned after this offering(1)	Percentage of Class to be owned after this offering(1)
Bansco & Co. No. 6 .... 44 King St. W., Toronto(2)	16,080	0.76	3,500	—	12,580	0.60
The Charterhouse Group Canada Limited... 60 Yonge Street, Toronto	16,080	0.76	3,500	—	12,580	0.60
Rolland M. Clark, MD.................... 220 Woodlea Crescent, Oshawa	3,077	0.15	3,000	—	77	—
Robert G. Fennimore..................... 30 Fallingbrook Drive, Scarborough	20,700	0.98	9,000	—	11,700	0.54
Gdn. Ventures Limited.................... 48 Yonge Street, Toronto	532,501	25.28	84,500	14,250	433,751	20.59
Alan Grieve............................ 30 Edgar Avenue, Toronto	12,500	0.59	8,000	—	4,500	0.21
Wilfred G. Lewitt........................ 200 Mineola Road West, Mississauga	113,334	5.38	17,000	3,000	93,334	4.40
Jerome F. McElroy....................... 72 Sir Williams Lane, Etobicoke	115,263	5.47	15,000	2,700	97,563	4.63
Pia Morris.............................. 7 Hollybrook Crescent, Willowdale	—	—	6,000(3)	—	—	—

Name and Address	Number of Shares owned	Percentage of Class owned	Number of Shares to be sold	Number of Shares to be optioned	Number of Shares to be owned after this offering(1)	Percentage of Class to be owned after this offering(1)
Michael Murgatroyd 55 Lascelles Boulevard, Toronto	13,069	0.62	7,000(3)	—	13,069	0.62
Frank T. Powers and Robert G. Fennimore in Trust 33 Rosehill Avenue, Toronto	87,050	4.13	5,000	—	82,050	3.89
Joseph G. Rowney 31 Aldershot Crescent, Willowdale	5,000	0.24	1,000	—	4,000	0.19
Edward Rygiel 25 Artinger Court, Don Mills	30,000	1.42	4,500	—	25,500	1.21
Slater, Walker of Canada Limited Suite 1600, Royal Trust Tower Toronto-Dominion Centre, Toronto	115,545	5.48	20,000	3,700	91,845	4.36
Trucena Investments Ltd. Suite 2220, Royal Trust Tower Toronto-Dominion Centre, Toronto	24,120	1.14	5,500	—	18,620	0.88
Ronald H. Yamada 15 Hartfield Road, Islington	67,463	3.20	7,500	1,350	58,613	2.78

(1) These figures are based on the assumption that the options on 25,000 common shares granted to the Underwriter will be exercised. Reference is made to the heading "Plan of Distribution" on page 7.

(2) These shares are beneficially owned by Employees Savings and Profit Sharing Fund of Dominion Foundries and Steel, Limited.

(3) These are common shares to result from the conversion of 8% preference shares.

No part of the proceeds from the sale by the Selling Shareholders of the securities offered by this prospectus will be received by MDS.

PRIOR SALES OF COMMON SHARES

Within the twelve months preceding the date of this prospectus, MDS issued 218,612 common shares. Of these shares, 200,000 were issued for a cash consideration of $5 per share to Diamond Shamrock Canada Ltd. MDS issued 18,546 common shares for a consideration of $6.50 per share as partial payment for the purchase of shares and assets of laboratory businesses. MDS has also issued 66 common shares at $3 per share upon the exercise of an option granted under the Employee Stock Option Plan described under the heading "Rights to Acquire Common Shares" on page 10.

PRINCIPAL HOLDERS OF COMMON SHARES

To the knowledge of MDS, Gdn. Ventures Limited, 48 Yonge St., Toronto, Ontario, was the only shareholder of MDS who owned of record or beneficially, more than 10% of the outstanding common shares of MDS as at February 15, 1973. At such date Gdn. Ventures Limited was the direct beneficial owner of 532,501 common shares representing 25.28% of the common shares then outstanding. Gdn. Management Limited of the same address is the parent company of Gdn. Ventures Limited and as such is deemed to be the indirect beneficial owner of these common shares.

As at February 15, 1973, the directors and senior officers of MDS, as a group beneficially owned, directly or indirectly, 16.3% of the then outstanding common shares of MDS at such date.

Reference is made to the heading "Selling Shareholders" on page 8 for particulars of sales of common shares to be made by Gdn. Ventures Limited and certain directors and senior officers.

DIVIDENDS

Dividends have been paid quarterly at the rate of 40¢ per annum on the 8% preference shares of MDS since issue in September and October 1971 and are not in arrears.

No dividends have been paid on the common shares of MDS since incorporation in 1969. MDS is presently restricted from paying dividends on its common shares in accordance with the terms of its outstanding 10%

debentures and by the terms of its loan agreement with a Canadian chartered bank. Payment of dividends by MDS on its common shares will be considered from time to time by the board of directors on the basis of earnings, financial circumstances and other relevant factors.

ESCROWED SHARES

An aggregate of 844,599 common shares of MDS are held in escrow by Guaranty Trust Company of Canada (the "Escrow Agent") pursuant to agreements (the "Escrow Agreements") made as of March •, 1973 between the Underwriter, the Escrow Agent and each of the following shareholders of MDS: Gdn. Ventures Limited, Diamond Shamrock Canada Ltd., Jerome F. McElroy, Wilfred G. Lewitt and Ronald H. Yamada. Such common shares are all of the common shares of MDS to be owned by such shareholders after the sale to the Underwriter of the Underwritten Shares and Optioned Shares offered hereby except for an aggregate of 38,662 common shares subject to outstanding options granted by certain of such shareholders as described in item 1 under the heading "Interest of Management and Others in Material Transactions" on page 12. Each Escrow Agreement provides that the common shares escrowed thereunder will be released as to 25% of such shares on each of September 30, 1973, March 31, 1974, September 30, 1974 and March 31, 1975; no such shares may be released from escrow before such dates except with the consent of the Underwriter; and escrowed shares may be pledged as security for loans only on terms which restrict the lender to realizing its security in the amounts and after the times the shares would have been released from escrow as set forth above.

RIGHTS TO ACQUIRE COMMON SHARES

Employee Stock Option Plan

MDS has adopted an Employee Stock Option Plan pursuant to which options to purchase up to an aggregate of 100,000 common shares of MDS may be granted to officers and employees of MDS. Options to purchase 66,117 common shares have been granted under the Plan and 66 common shares have been issued on the exercise of one such option.

The following options are outstanding under the Plan:

Optionee	Option Price Per Share	Number of Common Shares Under Option	Date of Grant of Option	Date of Expiry of Option
Directors and senior officers of MDS....	¼ cent	26,667	March 5, 1972	May 1, 1975
	$3.00	8,000	October 6, 1972	April 1, 1975
Other employees of MDS..............	$3.00	30,050	October 6-23, 1972 and February 14, 1973	April 1, 1975
	$4.00	1,400	October 20, 1972	April 1, 1975

There was no market for the common shares of MDS on the dates such options were granted nor is there any market for the common shares of MDS at the date hereof.

Pursuant to the agreement with Diamond Shamrock Corporation referred to in item 1 under the heading "Material Contracts" on page 14 MDS has agreed that it will not grant further options under the Plan at a price less than $3 per share with respect to a maximum of 1,950 shares or at a price less than $4 per share with respect to a maximum of 31,933 shares, being the balance of the shares reserved for issue under the Plan.

Other Rights

(a) MDS issued to purchasers of its 10% debentures due May 15, 1975 share purchase warrants entitling the holders to purchase an aggregate of 159,832 common shares of MDS at a price of $5 per share exercisable on or before May 15, 1975. None of such warrants have been exercised at the date hereof.

(b) MDS has issued to a Canadian chartered bank a warrant to purchase 14,400 common shares in connection with a term loan. The warrant is exercisable at $5 per share after January 30, 1975 and on or before January 30, 1978.

(c) In certain circumstances Diamond Shamrock Canada Ltd. has the right to purchase all or any part of 200,000 common shares of MDS at U.S. $5 per share prior to April 4, 1974 and also, subject to certain exceptions, the right to purchase common shares of MDS to maintain a certain percentage interest. Reference is made to item 1 under the heading "Material Contracts" on page 14.

(d) In connection with an acquisition, MDS issued to Main Medical Laboratories Limited a promissory note of MDS in the amount of $200,000. Main Medical Laboratories Limited has the obligation to exchange the note for common shares of MDS at the public offering price in the event MDS makes a public offering of its authorized but unissued common shares prior to May 31, 1973.

(e) The vendors of Polycon Development Limited, Brokers' Consultants Limited and Leythorn Developments Limited may in certain circumstances acquire common shares of MDS. Reference is made to items 2, 3 and 4 under the heading "Material Contracts" on page 14.

(f) Zephirin Piver, a shareholder of Laboratoires MDS Ltée, a subsidiary, has the right to maintain a 5% interest in that company.

(g) The 55,046 outstanding 8% preference shares of MDS are convertible into 55,046 common shares of MDS.

DIRECTORS AND OFFICERS

The names and home addresses in full of the directors and officers of MDS, the offices held by each and their principal occupations are as follows:

Name and Address	Office	Principal occupation
JEROME FRANCIS MCELROY 72 Sir Williams Lane, Etobicoke, Ontario	Chairman of the Board and Director	Executive of MDS.
WILFRED GEORGE LEWITT 200 Mineola Road West, Mississauga, Ontario	President and Director	Executive of MDS.
RONALD HIROSHI YAMADA 15 Hartfield Road, Islington, Ontario	Vice President, Secretary and Director	Executive of MDS.
DR. WILLIAM ANDERSON 61 Baby Point Crescent, Toronto, Ontario	Director	Pathologist, Toronto General Hospital and University of Toronto.
WILLIAM EDWARD CONWAY 32400 Fairmount Boulevard, Pepper Pike, Ohio	Director	Executive Vice President of Diamond Shamrock Corporation.
JAMES WILLIAM LYNN FORDHAM 9204 Creekwood Boulevard, Mentor, Ohio	Director	Vice President of Diamond Shamrock Corporation.
ALAN GRIEVE 30 Edgar Avenue, Toronto, Ontario	Director	President of Gdn. Ventures Limited.
RALPH HORNER 266 Douglas Drive, Toronto, Ontario	Director	Vice President of Gdn. Management Limited.
DR. JOHN CHARLES NIXON 2290 Bowman Road, Ottawa, Ontario	Medical Director and Director	Executive of MDS.
DOUGLAS MENZIE PHILLIPS 5 Abinger Crescent, Islington, Ontario	Director of Finance	Executive of MDS.
JOSEPH GARNET ROWNEY 31 Aldershot Crescent, Willowdale, Ontario	Treasurer and Assistant Secretary	Executive of MDS.

During the last five years each of the directors and officers of MDS has been associated in various capacities with the corporation or corporations indicated opposite his name or predecessors thereof, except that:

Prior to May, 1970, Mr. McElroy was Chairman of the Board and President of the Company from its incorporation and prior to April, 1969, was an engineer with International Business Machines Company Limited.

Prior to May, 1970, Mr. Lewitt was President of Cryovac Limited, a subsidiary of W. R. Grace & Company.

Prior to April, 1969, Mr. Yamada was an engineer with International Business Machines Company Limited.

Prior to August, 1970, Mr. Conway was Vice President of Pickands Mather and Co., a subsidiary of Diamond Shamrock Corporation.

Prior to April, 1969, Mr. Grieve was a Vice President of Gdn. Management Limited.

Prior to January, 1970, Mr. Horner was Vice President of United Funds Management Limited.

Prior to February, 1972, Dr. Nixon was Medical Biochemist to the Ottawa General Hospital, and prior to September, 1969 was Medical Biochemist at the National Defence Medical Centre.

Prior to May, 1971, Mr. Phillips was Assistant Treasurer and Controller of John Inglis Company Limited.

Prior to September, 1969, Mr. Rowney was Controller, Treasurer and Assistant Secretary of Canadian Food Products Limited.

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid by MDS and its consolidated subsidiaries to its directors and senior officers for the last completed financial year of MDS was $234,588, and for the period October 31, 1972 to February 17, 1973 was $70,213. No pension benefits are payable on retirement to the directors or senior officers of MDS except under the Canada Pension Plan.

PROMOTERS

Jerome F. McElroy, Ronald H. Yamada and Gdn. Ventures Limited took the initiative in founding MDS and as such are or have been promoters of MDS as that term is defined in applicable securities legislation. Michael Murgatroyd of 55 Lascelles Boulevard, Toronto, Murray J. Morris of 7 Hollybrook Crescent, Willowdale and Albert L. Cunningham of 3611 Flamewood Drive, Mississauga, former employees of MDS, also took the initiative in founding MDS and as such were the promoters of MDS as that term is defined in applicable securities legislation.

Upon incorporation, Mr. McElroy subscribed and paid for 150,000 common shares of MDS (as presently constituted) at one cent per share. Messrs. Yamada, Murgatroyd, Morris and Cunningham each subscribed and paid for 100,000 common shares of MDS (as presently constituted) at one cent per share. Within four months after incorporation Gdn. Ventures Limited subscribed for 300,000 common shares of MDS (as presently constituted) at eighty cents per share and 13,750 common shares of MDS (as presently constituted) at $4 per share.

PENDING LEGAL PROCEEDINGS

On December 10, 1970 MDS commenced an action by writ number 8485/70 in the Supreme Court of Ontario against Agatronics Limited. MDS alleges that it suffered special damages of $351,861 and general damages of $100,000 because an automated chemical analysis system MDS leased from Agatronics Limited failed to perform to an agreed upon level of acceptability. Agatronics Limited has defended the claim and issued a counterclaim alleging breach of contract and has claimed general damages in the amount of $468,277. MDS has entered a defence to the counterclaim. Messrs. Fasken & Calvin, counsel for MDS, have advised that MDS has a strong defence to the counterclaim. MDS has written off as an extraordinary expense in its accounts the amount of $420,000 which includes the special damages claimed from Agatronics Limited.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The following are the material transactions of the Company within three years prior to the date hereof in which: (i) any director or senior officer of the Company; (ii) any person or company beneficially owning, directly or indirectly, more than 10% of the common shares of the Company; and (iii) any associate or affiliate of the foregoing persons or companies, had a direct or indirect material interest.

1. On May 15, 1970 and June 2, 1970 MDS issued for cash and at par $799,160 10% debentures due May 15, 1975 accompanied by warrants entitling the holders thereof to purchase, on or before May 15, 1975, 159,832 common shares in the capital of MDS at a price of $5 per share.

As an inducement to invest in the 10% debentures the purchasers of such 10% debentures, other than the shareholders listed below, purchased and were granted options to purchase issued common shares from the shareholders listed below at a price of $2 per share. Such shareholders then invested the proceeds of sale in the purchase of 10% debentures. In addition to its reinvestment of the proceeds of sale of common shares, Gdn. Ventures Limited purchased $67,570 principal amount of 10% debentures on the same terms as other investors.

The following persons and company who were insiders at such date, participated in the sale of common shares, granted options and purchased 10% debentures and warrants:

Name	Debentures purchased	Warrants received	Common shares sold to debenture purchasers	Options granted to debenture purchasers
J. F. McElroy	$ 20,263	4,052 shares	10,132	13,068 shares
R. H. Yamada	20,263	4,052 shares	10,132	13,068 shares
M. J. Morris	20,263	4,052 shares	10,131	13,069 shares
M. Murgatroyd	20,263	4,052 shares	10,131	13,069 shares
A. L. Cunningham	158,190	31,638 shares	79,095	—
Gdn. Ventures Limited	97,493	19,501 shares	9,979	12,526 shares

Messrs. McElroy, Yamada, Morris, Murgatroyd and Cunningham were directors, officers and/or substantial shareholders of MDS. Gdn. Ventures Limited directly held more than 10% of the common shares of MDS. Messrs. Grieve and Horner, directors of MDS, were shareholders of the parent company of Gdn. Ventures Limited.

2. As part of the arrangement with Diamond Shamrock Corporation described in item 1 under the heading "Material Contracts" on page 14 MDS entered into amended employment contracts dated March 3, 1972 with Messrs. Lewitt, Yamada and McElroy, directors, officers and shareholders of MDS. MDS and each of Messrs. Lewitt, McElroy and Yamada have agreed in such contracts not to give notice of termination of employment which would take effect prior to May 1, 1975, being the minimum terminal date for the supply by MDS of management services to MSL. As part of Mr. Lewitt's amended employment contract he was granted an option to purchase 26,667 common shares of MDS at ¼¢ per share contingent upon his remaining in the employ of MDS or an affiliated company for specified periods.

3. Messrs. William E. Conway and J. Lynn Fordham were appointed directors of MDS on April 5, 1972 following completion of certain transactions with Diamond Shamrock Corporation referred to in item 1 under the heading "Material Contracts" on page 14. Those transactions included the agreement of Gdn. Ventures Ltd. and the officers and directors of MDS to vote their shares of MDS in favour of the election of two directors of MDS who are representatives of Diamond Shamrock Canada Ltd. so long as Diamond Shamrock Canada Ltd. owns more than 5% of the issued common shares of MDS.

4. In May, 1972 MDS purchased 70,000 outstanding common shares of Canapharm Industries, Inc. ("Canapharm") from certain Canapharm shareholders for $87,500 cash. In October, 1972 MDS sold its interests in certain licences and pharmaceutical products, which were recorded on its books at approximately $78,000, to Canapharm in return for a $75,000 floating charge debenture convertible into common shares of Canapharm at $1 per share, a warrant to purchase 50,000 common shares of Canapharm at a price of $2 per share exercisable over eighteen months and a warrant to purchase 50,000 common shares of Canapharm at a price of $2 per share exercisable over two years. In December, 1972 MDS purchased 25,000 outstanding common shares of Canapharm from Mr. McElroy at $1.50 per share and 25,000 outstanding common shares of Canapharm from another Canapharm shareholder at $1.50 per share. Following such transactions MDS owned 24% of the common shares of Canapharm and if its warrants were exercised and its debenture was converted would own 43% of such common shares.

Mr. McElroy was, at the time of these transactions a director, officer and substantial shareholder of Canapharm. Gdn. Ventures was the largest single shareholder of Canapharm at all relevant times.

5. By agreement dated October 9, 1970 between Messrs. McElroy, Yamada, Morris, Murgatroyd and Cunningham and Gdn. Ventures Limited (the "Vendors") and MDS and Roger D. Wilson as trustee, (the "Trustee") 216,666 issued common shares of MDS were sold to the Trustee to be optioned for sale by the Trustee to new key employees of MDS upon the direction of MDS. Options on the said 216,666 issued common shares were granted to nine new key employees between October 9, 1970 and May 31, 1972 and options on 188,000 of such issued common shares have since been exercised.

MATERIAL CONTRACTS

During the past two years the Company has entered into the following material contracts in addition to contracts in the ordinary course of business. Agreements for the purchase of laboratory and other businesses by the Company in which the purchase price did not exceed $150,000 have not been set forth unless otherwise material. Reference is made to the Notes to the Consolidated Financial Statements for a summary of acquisitions.

1. An agreement dated April 5, 1972 between MDS and Diamond Shamrock Corporation ("Diamond Shamrock") and Diamond Shamrock Canada Ltd. Reference is made to the heading "United States Operations" on page 4. Further particulars of this agreement are as follows:

(a) MDS agreed to supply management services to Medical Sciences Laboratories Inc. ("MSL") at approximate cost;

(b) the MSL shares owned by MDS will from time to time be delivered to and held in escrow with the Union Commerce Bank of Cleveland, Ohio, U.S.A. as security for performance by MDS of its obligations to supply management services to MSL;

(c) MDS agreed not to terminate the existing contracts of Messrs. Lewitt, McElroy or Yamada prior to May 1, 1975 without the prior written consent of MSL and Diamond Shamrock;

(d) MDS agreed in the event that it issues, subject to certain exceptions, any additional common shares, to allow Diamond Shamrock Canada Ltd. to purchase at such issue price additional unissued common shares of MDS as necessary to maintain its then percentage interest in the common shares of MDS;

(e) MDS agreed not to compete with MSL and Diamond Shamrock in the medical laboratory business in the United States prior to April 1977.

2. Agreement dated July 27, 1972 between MDS Professional Services Limited ("Prof") and Peter John Ivan Miller, Gerald W. McMaster, John F. Mills and Keith J. Munro, (collectively referred to as the "Polycon Vendors") whereby Prof agreed to purchase effective November 1, 1972 all of the issued and outstanding common shares of Polycon Development Limited ("Polycon") in exchange for 250,000 convertible, redeemable Series A preference shares of Prof and 2,500 common shares of Prof. Prof has the right to reconvey the purchased shares of Polycon to the Polycon Vendors prior to April 30, 1975. Reference is made to note 10(b) of the Notes to the Consolidated Financial Statements on page 22.

3. Agreement dated September 26, 1972 between Prof and Roy W. Craik ("Craik") whereby Prof agreed to purchase effective November 1, 1972 all of the issued and outstanding common shares of Brokers' Consultants Limited ("Brokers") in exchange for 250,000 convertible, redeemable Series D preference shares of Prof and 2,500 common shares of Prof. Prof has the right to reconvey the purchased shares of Brokers to Craik prior to April 30, 1975. Reference is made to note 10(b) of the Notes to the Consolidated Financial Statements on page 22.

4. Agreement dated October 25, 1972 between Prof, Edward Thornley, John Terence Stott and Chriscot Holdings Limited (collectively referred to as the "Leythorn Vendors") whereby Prof agreed to purchase effective November 1, 1972 all of the issued and outstanding common shares of Leythorn Developments Limited ("Leythorn") in exchange for 1,000 convertible, redeemable Series C preference shares of Prof and 2,500 common shares of Prof. Prof has the right to reconvey the purchased shares of Leythorn to the Leythorn Vendors prior to April 30, 1976. Reference is made to note 10(b) of the Notes to the Consolidated Financial Statements on page 22.

5. Agreement dated September 21, 1972 between MDS and Zephirin Piver ("Piver"), whereby, MDS purchased all of the issued and outstanding shares of Verdun Pharmaceutical Laboratories Limited ("Verdun") and of Paul Maney Laboratories (Quebec) Limited ("Maney") except for certain preferred shares of Maney owned by Verdun. The total purchase price was $258,313 payable by 12,500 common shares of MDS which were valued at $6.50 per share and the balance in cash. Subsequently MDS sold all of its interests in Maney and Verdun to its wholly owned subsidiary, Montreal Medical Laboratory Inc., for a purchase price of $252,701, payable as to $100,000 in cash and the balance by a demand promissory note.

6. Agreement dated October 19, 1972 between MDS and a Canadian chartered bank providing for an operating loan of $1,300,000 and a term loan of $600,000 and the issue to the bank of a warrant to purchase 14,400

common shares of MDS at a purchase price of $5 per share. Reference is made to item (b) under the subheading "Other Rights" on page 10.

7. The Underwriting Agreement described under the heading "Plan of Distribution" on page 7. MDS is a party to the Underwriting Agreement for the purpose of making certain representations to the Underwriter.

Copies of the above may be examined at the head office of MDS during normal business hours during the period of distribution to the public of the common shares offered hereby and for a period of 30 days thereafter.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are Clarkson, Gordon & Co., Chartered Accountants, Royal Trust Tower, Toronto Dominion Centre, Toronto, Ontario.

The transfer agent and registrar of the Company's common shares is Guaranty Trust Company of Canada, at its principal offices in Toronto and Montreal.

AUDITORS' REPORT

To the Directors of
MDS Health Group Limited:

We have examined the consolidated balance sheet of MDS Health Group Limited (formerly Medical Data Sciences Limited) and its subsidiaries as at October 31, 1972 and the statements of income, deficit and source and application of funds for the period from incorporation on April 17, 1969 to October 31, 1972. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at October 31, 1972 and the results of their operations and the source and application of their funds for the period from incorporation on April 17, 1969 to October 31, 1972 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
February • , 1973

Chartered Accountants

MDS HEALTH GROUP LIMITED

Consolidated Balance Sheet

($'000 omitted)

October 31, 1972

ASSETS

Current assets:	
Deposit receipts	$ 546
Accounts receivable (note 6)	1,358
Inventory, at lower of cost and replacement cost	264
Prepaid expenses	45
Due from Medical Sciences Laboratories, Inc. (note 10(a))	33
Total current assets	2,246
Investment in shares and debentures of Canapharm Industries, Inc., at cost (note 2)	162
Fixed assets (note 3)	750
Excess of amounts paid over the value of the net tangible assets acquired on the purchase of shares of companies and assets of businesses (note 4)	2,886
Other assets (note 5)	73
Total assets	$6,117

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Bank indebtedness (note 6)	$ 305
Accounts payable and accrued liabilities	553
Current portion of long term debt	639
Income and other taxes payable	62
Total current liabilities	1,559
Long term debt (note 7)	891
Total liabilities	2,450
Shareholders' equity:	
Capital stock (notes 6, 8 and 10)	3,913
Deficit	(246)
	3,667
Total liabilities and shareholders' equity	$6,117

On behalf of the Board:

(Signed) W. G. Lewitt, Director

(Signed) R. Yamada, Director

(See accompanying notes to consolidated financial statements)

MDS HEALTH GROUP LIMITED

Consolidated Statement of Income
($'000 omitted)

	From incorporation on April 17, 1969 to October 31, 1969	Years ended October 31, 1970	1971	1972
Gross sales	$ 168	$2,332	$5,335	$7,203
Less discounts	3	79	427	595
Net sales (note 9)	165	2,253	4,908	6,608
Direct costs:				
Materials	19	262	488	804
Salaries	45	652	1,426	1,813
Distribution and delivery	6	43	116	148
Consultation fees and outside tests	5	76	220	294
Total direct costs	75	1,033	2,250	3,059
Gross margin	90	1,220	2,658	3,549
Indirect costs:				
Administrative salaries	97	662	856	1,203
Building occupancy costs	24	205	310	419
Amortization of leasehold improvements	5	31	31	39
Medical consulting fees	6	122	195	202
Bad debt expense	4	164	55	27
Depreciation on equipment	13	53	54	71
Interest — long term debt	4	66	124	120
— other, net	(25)	(7)	37	(2)
Equipment rental	13	88	162	142
Other	76	491	483	668
Total indirect costs	217	1,875	2,307	2,889
Income (loss) before income taxes and extraordinary items	(127)	(655)	351	660
(Provision for) recovery of income taxes		3	(208)	(323)
Income (loss) before extraordinary items	(127)	(652)	143	337
Extraordinary items (note 11):				
Reduction in income taxes	—	—	208	305
Loss related to AGA laboratory machine	—	(420)	—	—
Write off of investment in shares	—	—	—	(18)
Net income (loss) for the year (note 12)	($ 127)	($1,072)	$ 351	$ 624
Earnings (loss) per common share — before extraordinary items	($0.07)	($0.35)	$0.07	$0.16
— for the year	($0.07)	($0.57)	$0.19	$0.30
Fully diluted earnings (loss) per common share — before extraordinary items	($0.07)	($0.35)	$0.07	$0.15
— for the year	($0.07)	($0.57)	$0.18	$0.28

Consolidated Statement of Deficit
($'000 omitted)

Deficit, beginning of year	—	($ 127)	($1,199)	($ 848)
Net income (loss) for the year	($ 127)	(1,072)	351	624
Dividends paid on preference shares	—	—	—	(22)
Deficit, end of year	($ 127)	($1,199)	($ 848)	($ 246)

(See accompanying notes to consolidated financial statements)

MDS HEALTH GROUP LIMITED

Consolidated Statement of Source and Application of Funds

($'000 omitted)

	From incorporation on April 17, 1969 to October 31, 1969	Years ended October 31, 1970	1971	1972
Funds were provided from:				
Operations —				
Net income (loss) for the year before extraordinary items	($ 127)	($ 652)	$ 143	$ 337
Add charges which did not require an outlay of funds:				
Depreciation on equipment	13	53	54	71
Amortization of leasehold improvements	5	31	31	39
Other	—	28	—	7
Funds provided from operations	(109)	(540)	228	454
Extraordinary items —				
Reduction in income taxes	—	—	208	305
Loss related to AGA laboratory machine net of amortization of leasehold improvements of $104	—	(316)	—	—
Proceeds on sale of fixed assets	—	—	86	17
Issue of common shares	1,547	—	—	1,000
Issue of preference shares	—	—	275	—
Issue of debentures	—	799	—	—
Total source of funds	1,438	(57)	797	1,776
Funds were applied to:				
Reduction of long term debt over one year	1	18	203	603
Purchase of fixed assets	179	481	164	314
Investment in shares of Canapharm Industries, Inc.	—	—	—	88
Payment of dividends on preference shares	—	—	—	22
Purchase of other assets	34	2	108	35
Investment in subsidiaries and divisions:				
Purchase of divisions and subsidiaries less working capital and fixed assets acquired	1,011	1,655	79	271
Less portion of purchase prices satisfied with the issue of:				
Long term debt	(200)	(705)	(5)	(10)
Common stock	(400)	(490)	(70)	(121)
	411	460	4	140
Total application of funds	625	961	479	1,202
Increase (decrease) in working capital for the year	813	(1,018)	318	574
Working capital beginning of year (deficiency)	—	813	(205)	113
Working capital end of year (deficiency)	$ 813	($ 205)	$ 113	$ 687

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements
October 31, 1972

1. Accounting policies

The following is a summary of certain significant accounting policies followed in the preparation of the consolidated financial statements. The policies conform to generally accepted accounting principles and have been applied consistently.

(a) The accounts of all subsidiaries are consolidated on a purchase basis from the date of acquisition.

(b) Depreciation is provided on a straight line basis over the estimated useful life of the property. Leasehold improvements are amortized over the lesser of ten years or the length of the lease plus one renewal option.

(c) Costs associated with the development of new locations and with the acquisition of new businesses have been expensed as incurred.

(d) The excess of amounts paid over the value of the net tangible assets acquired on the purchase of shares of companies and assets of businesses is not being amortized in the accounts.

2. Investment in shares and debentures

During the year the company acquired 70,000 common shares of Canapharm Industries, Inc. (14% interest in that company at October 31, 1972) for $87,500. Subsequent to October 31, 1972 the company acquired an additional 50,000 common shares for $75,000 increasing its interest in Canapharm to 24%.

At October 31, 1971, the company had recorded as "deferred business development costs" certain expenditures incurred to develop licences for pharmaceutical products. On October 26, 1972 these licences were sold to Canapharm in return for a $75,000 convertible debenture due October 26, 1977 bearing interest at 7% from October 26, 1975 and warrants to purchase 100,000 common shares of Canapharm at $2.00 per share exercisable as to 50,000 shares up to April 26, 1974 and the balance up to October 26, 1974. This debenture is convertible into common shares of Canapharm at $1.00 per share up to October 26, 1975. The expiry dates of the warrants and of the conversion rights attached to the debenture accelerate when Canapharm offers at least 100,000 unissued common shares in a public offering.

Canapharm is at an early stage in its development. Its value in the future will depend on the success of a number of new products to be marketed.

3. Fixed assets

	($'000 omitted)		
	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 22		$ 22
Buildings	14	$ 1	13
Equipment and furniture	770	301	469
Leasehold improvements	535	289	246
	$1,341	$591	$750

4. Acquisition of new businesses

	From incorporation on April 17, 1969 to October 31, 1970	Years ended October 31, 1971	1972
Type of purchase—asset	4	2	3
—shares (100%)	4	—	3
Number of businesses acquired	8	2	6
Net assets on sellers' books (b)	$ 488,335	$ 35,599	$147,512
Portion of purchase price ascribed to goodwill	$2,510,924	$ 79,401	$270,814
Consideration paid—			
Cash	$1,204,359	$ 40,000	$249,903
Debt (e)	905,000	5,000	46,000
Common shares	890,000	70,000	120,550
	$2,999,359	$115,000	$416,453
Number of common shares issued	199,669	10,769	18,546

(a) All businesses acquired were medical laboratories with the exception of two companies acquired in 1972 which market pharmaceuticals.

(b) No goodwill existed on the sellers' books with the exception of one company acquired in 1972 which carried goodwill at $64,964 on its books.

(c) The only adjustment required on consolidation in order to state net assets on the sellers' books at fair value occurred in 1972 when $8,500 was allocated from land and buildings to goodwill.

(d) In all instances the results of operations of the acquired businesses are included in the consolidated statement of income of the company from the date of purchase.

(e) Debt issued for acquired businesses had payment terms that extended to 1975 bearing interest from 0% to 8%.

5. Other assets

	($'000 omitted)
Premises rent deposits	$40
Equipment lease deposit, refundable in 1974	28
Other	5
	$73

6. Bank indebtedness

The present bank indebtedness is secured by an assignment of accounts receivable. The company has arranged a new operating line of credit of $1,300,000 as well as a term loan for $600,000 with its bankers. Both loans are to be secured by an assignment of accounts receivable. The term loan is to be repaid in equal monthly instalments over its five year term. As part of the loan agreement certain warrants to purchase common shares were granted to the bank (refer to note 8(b)). In addition to the usual conditions the company has agreed to maintain a minimum working capital of $250,000 which is defined so as to exclude debt incurred on the purchase of businesses that is more than 90 days from maturity.

7. Long term debt

	($'000 omitted)
7½% notes, due December 6, 1973 (a)	$ 80
7% note, due May 31, 1974	5
8% notes, due December 15, from 1973 to 1975	7
10% debentures, due May 15, 1975 (b)	799
	$891

(a) These notes will become due at the earlier of the date noted above, or 60 days after any issue to the public of any shares or other securities of the company. The offering of shares contemplated by this prospectus will make the amount currently payable.

(b) These 10% debentures are secured by a floating charge on the company's undertaking, properties and assets. As among holders of the 10% debentures, holders of $259,165 principal amount have agreed to postpone their claim for any redemption until all monies due to the other holders of the 10% debentures have been paid. Holders of $80,975 principal amount of 10% debentures have unconditionally waived the receipt of any interest otherwise due to them.

8. Capital stock

Authorized:

400,000 8% convertible, cumulative, redeemable preference shares with a par value of $5.00 per share

3,750,000 common shares without par value

Issued:

55,046 preference shares	$ 275,230
2,106,519 common shares	3,638,057
	$3,913,287

(a) Preference shares

The company has the right to redeem the preference shares at the earlier of September 1, 1973 or the date of a receipt from the Ontario Securities Commission for a final prospectus relating to a public offering through an underwriter of common shares of the company at a price of at least $5 per common share.

At any time prior to redemption the owners of outstanding preference shares may convert them on a one-for-one basis into common shares.

(b) Potential issues of common shares

Arising from	Number of common shares	Issue price	Terms
Employee Stock Option Plan......	38,050	$3.00	Under the Employee Stock Option Plan, which has been approved by shareholders, 100,000 common shares have been reserved. As at October 31, 1972, options to purchase 56,117 common shares had been granted and in February 1973 options were granted to purchase an additional 10,000 common shares. The options are exercisable at various dates; however, all options must be exercised by May 1, 1975. By the agreement with Diamond Shamrock (refer to note 10(a)) the company may not grant additional options of more than 1,950 shares at a minimum price of $3.00 per share and 31,933 shares at a minimum price of $4.00 per share.
	26,667	¼¢	
	1,400	$4.00	
	66,117		
Diamond Shamrock agreement.... (refer to note 10(a))	200,000	U.S. $5.00	Must be subscribed for prior to April 5, 1974, consideration to be in the form of MSL shares.
10% debentures payable..........	159,832	$5.00	Warrants are exercisable up to May 15, 1975.
Bank loan agreement............. (refer to note 6)	14,400	$5.00	A warrant to purchase 14,400 common shares exercisable after January 30, 1975 and on or before January 30, 1978 was issued to a Canadian chartered bank.
Convertible preference shares......	55,046	$5.00	Convertible on a one-for-one basis at any time.

The company may also be required to issue common shares as follows:

(i) $200,000 of notes payable included in current portion of long term debt on the balance sheet must be converted into common shares in the event of a public underwriting of authorized but unissued common shares, the number of shares being determined by dividing the then principal outstanding by the then issue price per share. The offering of shares contemplated by this prospectus does not cause conversion of these notes.

(ii) MDS Professional Services Limited agreements (refer to note 10 (b)).

(c) Dividend restrictions

The company is presently restricted from paying dividends on its common shares in accordance with the terms of its outstanding 10% debentures and by the terms of its loan agreement with a Canadian chartered bank.

9. Pro forma unaudited combined net sales

The following table has been prepared to illustrate what net sales would have been had all the businesses acquired by the company been operated by it from April 17, 1969. Where a constituent business did not have an October 31 fiscal period end, appropriate adjustments have been made to the historical data.

	($'000 omitted)
1969 (6½ months).............	$1,351
1970..........................	3,439
1971..........................	5,321
1972..........................	6,869

10. Commitments

(a) During 1972 the company entered into a number of agreements with a U.S. corporation, Diamond Shamrock Corporation (Diamond U.S.) and its Canadian subsidiary Diamond Shamrock Canada Ltd. (Diamond Canada). Under the terms of the management services agreement the company is committed for a minimum period of three years from April 5, 1972 to provide management services to Medical Sciences Laboratories, Inc. (MSL) a newly incorporated Delaware corporation, which has been formed to establish and operate a laboratory business in the U.S. Diamond Canada purchased 200,000 shares of the company for $1,000,000 and has agreed to subscribe prior to April 5, 1974, for up to an additional 200,000 shares of the company at a price of U.S. $5.00 per share to be paid for by shares of MSL. The agreement requires Diamond U.S. to subscribe for up to U.S. $2,000,000 and Diamond Canada to subscribe for up to U.S. $1,000,000 of MSL shares as and when required for the development of MSL. The MSL shares subscribed for by Diamond Canada are to be exchanged by Diamond Canada for common shares in the company at a price of U.S. $5.00 per share. In this way the company will acquire an interest in MSL equal to one half the interest held by Diamond U.S. A condition of the share exchanges is that at the times the company is to have minimum working capital of $250,000 which is defined so as to exclude debt incurred on the purchase of businesses that is more than 90 days from maturity. If the company does not then have such minimum working capital the exchange may be deferred by Diamond Canada until the company again has the minimum required working capital. As security for performance by the company under the management services agreement, any shares of MSL owned by the company will be held in escrow until at least April 4, 1975. As at October 31, 1972, no shares of MSL had been offered to the company for exchange.

(b) During the year, MDS Professional Services Limited (Prof), a newly incorporated subsidiary, entered into Agreements to purchase all the outstanding shares of Polycon Development Limited, Brokers' Consultants Limited and Leythorn Developments Limited. Although the amount attributable by Prof to the issued convertible redeemable preference shares (501,000 at $1.00 each) and common shares (7,500 at $1.00 each), as a result of the purchases was $508,500 at the effective date, November 1, 1972, the final purchase prices, if paid, could differ substantially from $508,500 because the prices are related to formulae based on future earnings. It is not possible to indicate at this time the ultimate purchase cost, or what portion, if any, of the cost will be attributable to net tangible assets. The preference shares are to be converted into common shares of Prof over a five year period beginning April 30, 1975 for two purchases and over a five year period beginning April 30, 1976 for the third purchase, all on a formula basis related to earnings and net assets of the purchased companies, on a company by company basis. The Prof common shares must then be offered for sale to MDS Health Group Limited who must purchase them for cash (of $1.00 per share) or, in certain circumstances, in part by cash and in part by the issue of common shares of MDS Health Group Limited. Under the terms of the Agreements, the redemption feature of the Prof preference shares may be satisfied, for two purchases until April 30, 1975 and for the third purchase until April 30, 1976, by the transfer by Prof of the outstanding shares acquired under the Agreements to the preference shareholders in exchange for their Prof preference shares.

(c) Under premise and equipment leases entered into by the company and its subsidiaries up to October 31, 1972, the companies incurred lease expenses of $328,000 in 1972 and are obliged to make minimum payments of approximately $370,000 in 1973, $278,000 in 1974, $241,000 in 1975, $163,000 in 1976, $132,000 in 1977 and $222,000 in total over the period 1978 to 1982.

11. Extraordinary items

The extraordinary items of $305,000 in 1972 and $208,000 in 1971 represent the tax benefits arising from an accounting loss carry forward from 1970 and 1971 which was not reflected in the accounts in those periods.

The extraordinary item of $18,000 in 1972 represents the write off of the remaining investment in shares of a company that owns a building formerly occupied by a subsidiary. As this former investment is not a recurring factor in the evaluation of the ordinary operations of the company it has been reflected as an extraordinary item.

The extraordinary item of $420,000 in 1970 is described in note 13.

12. Earnings per common share

Earnings per common share have been calculated using a weighted average number of shares outstanding during the year. Fully diluted earnings per common share have been calculated to show the dilutive effect, if any, of conversion of preference shares, conversion of notes, exercise of warrants and the exercise of stock options.

13. Contingent liabilities

In 1970 the company experienced costs in connection with an AGA laboratory machine that could not be brought to a satisfactory operational level. The related costs and estimated costs were reflected in that year as an extraordinary item in the consolidated statement of loss. The company has commenced a legal suit to recover specific costs of $351,861 and general damages of $100,000. A counterclaim of $468,277 has been entered in this action. Counsel have advised that the company has a strong defence to the counterclaim.

14. Subsequent events

On December 15, 1972 the company purchased a business and its assets for $27,500, $15,000 of which was paid in cash and the balance by a 7½% promissory note for $12,500 due on December 15, 1975.

Reference is made to notes 2, 7(a), 8(b) and 10(b) for other subsequent events.

By articles of amendment dated February 26, 1973 the name of the company was changed from Medical Data Sciences Limited to MDS Health Group Limited.

PURCHASER'S STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Sections 64 and 65 of The Securities Act (Ontario) provide, in effect, that where a security is offered in the course of distribution to the public:

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor or his agent not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by him or his agent, and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Reference is made to the aforesaid Act for the complete text of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

Dated: February 27, 1973

CERTIFICATE OF THE COMPANY

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of The Securities Act (Ontario), under the Securities Act (Quebec) and by the respective regulations made under such Acts.

(Signed) W. G. Lewitt
President

(Signed) D. M. Phillips
Director of Finance

On Behalf of the Board of Directors

(Signed) J. C. Nixon
Director

(Signed) R. Horner
Director

Promoters

(Signed) J. F. McElroy

(Signed) R. Yamada

Gdn. Ventures Limited
per (Signed) P. E. Roode

CERTIFICATE OF UNDERWRITER

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of The Securities Act (Ontario), under the Securities Act (Quebec) and by the respective regulations made under such Acts.

MerBan Securities Limited

By: (Signed) Andrew Sarlos

By: (Signed) George H. Montague

The only person having an interest, either directly or indirectly, to the extent of 5% in the capital of MerBan Securities Limited is MerBan Capital Corporation Limited. The following includes the names of every person having an interest, either directly or indirectly, to the extent of 5% in the capital of MerBan Capital Corporation Limited: Acres Limited, Canadian General Securities Limited, Guaranty Trust Company of Canada, Traders Group Limited and G. D. Elliott, as Trustee.

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This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence.

Secondary Offering

MDS Health Group Limited

(Incorporated under the laws of the Province of Ontario)

200,000 Common Shares

(without par value)

The common shares being offered by this prospectus are being sold by the Selling Shareholders named under the heading "Selling Shareholders" on page 8. **No part of the proceeds from the sale of these shares will be received by MDS Health Group Limited ("MDS").**

There is no market for the common shares of MDS and the price of this offering was determined by negotiation between the Selling Shareholders and the Underwriter. **The common shares offered by this prospectus are speculative. Purchasers of the common shares offered hereby will experience an immediate dilution of $4.11 per share when compared to net tangible book value. Reference is made to the headings "Speculative Nature of Shares" on page 6 and "Dilution" on page 7.**

	Price to Public	Underwriting Commission	Proceeds to Selling Shareholders(1)
Per Share.....	$4.35	$ .35	$4.00
Total.........	$870,000	$70,000	$800,000

(1) The figures shown are before deduction of expenses of offering payable by the Selling Shareholders, estimated at $24,000.

We as principals, conditionally offer these common shares through registered securities dealers, subject to prior sale, if, as and when accepted by us in accordance with the conditions contained in the Underwriting Agreement referred to under the heading "Plan of Distribution" on page 7 and subject to approval of all legal matters on behalf of the Selling Shareholders by Fasken & Calvin, Toronto and on our behalf by Shibley, Righton & McCutcheon, Toronto. Orders will be received subject to rejection or allotment in whole or in part and the right is reserved to close the order book at any time without notice. It is expected that definitive share certificates will be available for delivery on or about April 30, 1973.

April 13, 1973

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THE COMPANY

MDS Health Group Limited ("MDS") was incorporated under the laws of the Province of Ontario by articles of incorporation dated April 17, 1969 under the name Medical Data Sciences Limited. Articles of amendment were issued to MDS on December 24, 1969, August 24, 1971, and February 26, 1973, changing its capital, changing its name to its present name and converting it to a public offering company. MDS carries on business directly and through five active subsidiaries. In this prospectus MDS and its subsidiaries are sometimes collectively referred to as the "Company". The Company operates a network of laboratories providing testing services to physicians, hospitals, nursing homes and others and offers other services in the health care field. The head office of MDS and its principal place of business is located at 30 Meridian Road, Rexdale, Ontario.

BUSINESS OF THE COMPANY

History

MDS was founded to enter the developing field of preventive medicine by offering laboratory testing and a health screening program to a diverse clientele utilizing modern automated analytical equipment. MDS found that with developing medical technology private medical laboratories were playing an increasing role in providing diagnostic services to physicians. MDS decided to establish a network of medical laboratories to meet increasing demand for medical testing facilities and to form a base from which to develop its health screening program.

Laboratory Operations

MDS began to acquire existing medical laboratories in selected locations in Ontario and Quebec to form a basis on which to develop its own network of laboratories.

Once a base had been established by acquisition, the Company concentrated on the expansion of the acquired laboratories and commenced to open new laboratories and specimen collection stations in areas not already served by private laboratories.

The Company now operates Canada's largest network of medical laboratories consisting of five main testing laboratories, 19 regional laboratories processing a wide range of routine tests, 29 satellite laboratories handling a limited range of blood tests and twelve specimen collection stations. The following is a summary of laboratories acquired and opened in the calendar years indicated:

Summary of Units in Operation

	1969	1970	1971	1972	1973 (to February 15)
Laboratories acquired	8	9	2	4	—
Laboratories and specimen collection stations opened	—	4	9	24	5
Total for the year	8	13	11	28	5
Cumulative total	8	21	32	60	65

Data produced by the Company's testing facilities is utilized by physicians to diagnose and treat disease, to monitor administration of medication and to generally aid in decisions regarding medical treatment. The Company believes it provides the physician with rapid, accurate, comprehensive laboratory services. Each of the Company's laboratories is under the control of a fully qualified specialist in laboratory medicine. The Company also performs various tests for over 200 Canadian organizations and institutions including hospitals and public health laboratories.

Some 300 different tests are performed in the Company's medical laboratories although approximately 100 tests account for 80-90% of the total test volume. The Company's laboratories offer clinical evaluations in the following areas: (1) Biochemistry; (2) Cytology (study of cells, e.g., Pap smear testing); (3) Hematology (study of blood cellular elements); (4) Histology (study of body tissues); (5) Microbiology (study of micro-organisms and their drug sensitivity); (6) Radioisotope Analysis; (7) Serology (study of immune reactions); (8) Blood group determination; (9) Pregnancy tests; (10) Urinalysis.

The Company has also established a reference laboratory which processes tests which are more complex and difficult to perform. Many of these complex tests were not handled in Canada previously and were being referred by doctors and hospitals to laboratories outside the country. The Company also maintains a research department to improve present methodologies and develop new testing techniques.

The following is a list of the Company's laboratory and collection station network. All such locations are in leasehold premises:

Locations—Ontario

Ajax
174 Harwood Avenue

Barrie
121 Wellington Street West
39 Collier Street

Belleville
220 Dundas Street East

Brockville
6 Glenwood Place

Burlington
672 Brant Street

Byron
39 Queen Street

Chatham
382 Wellington Street

Cobourg
256 Division Street North

Fort Erie
214 Jarvis Street

Guelph
155 Suffolk Street

Hamilton
452 Main Street East
600 Upper Wellington Street
195 Upper St. James Street

Kingston
240 Brock Street

Kitchener
170 Victoria Street South
453 Park Street

Lindsay
228 Kent Street

London
528 Dundas Street
262 Oxford Street

Milton
69 Main Street

Oakville
129 Reynolds Street North
Hopedale Mall
323 Kerr Street

Oshawa
300 King Street West
247 Simcoe Street North

Owen Sound
945 Third Avenue East

Peterborough
351 Charlotte Street

Port Colborne
228 Catherine Street

Preston
163 King Street

Richmond Hill
22 Richmond Street

St. Catharines
145 Queenston Street
157 Ontario Street
15 Welland Avenue

St. Thomas
388 Talbot Street

Smiths Falls
28 Main Street West

Stoney Creek
15 Mountain Avenue South

Stratford
117 Waterloo Street

Sudbury
151 Larch Street
1191 Lansing Avenue

Thorold
Pine Street Shopping Centre

Timmins
38 Pine Street North

Toronto
30 Meridian Road, Rexdale
170 St. George Street
2698 Jane Street
2221 Keele Street
2917 Bloor St. West
250 Lawrence Avenue West
901 O'Connor Drive
1333 Sheppard Avenue East
25 Leonard Avenue
2323 Yonge Street
208 Bloor Street West
586 Eglinton Avenue East
272 Roncesvalles Avenue
591 Parliament Street
5 Walmer Road
3269 Bloor Street West

Wallaceburg
302 James Street

Welland
80 King Street

Whitby
519 Dundas Street East

Locations—Quebec

Montreal
4691 Van Horne Avenue
5845 Cote des Neiges
666 Sherbrooke Street West
5778 Descelles Avenue

United States Operations

In April 1972, MDS entered into an agreement with Diamond Shamrock Corporation of Cleveland, Ohio and its Canadian subsidiary, Diamond Shamrock Canada Ltd., to jointly develop a network of medical laboratories in the United States. Under the agreement, Diamond Shamrock Canada Ltd. subscribed and paid for 200,000 common shares of MDS for $1,000,000 and Diamond Shamrock Corporation and MDS incorporated Medical Sciences Laboratories Inc. ("MSL"). Diamond Shamrock Corporation and Diamond Shamrock Canada Ltd. agreed that, if in their opinion, funds are required prior to April 5, 1974 for the development of MSL, they will subscribe up to U.S. $3,000,000 for shares of MSL and will transfer to MDS one-third of such shares at the issue price therefor in exchange for MDS common shares at U.S. $5 per share so that MDS will have a participation in MSL equal to one half of the participation of Diamond Shamrock Corporation. MDS has the right to maintain such participation after April 5, 1974. MDS agreed to provide certain management services to MSL for a minimum

period of three years, approximately at cost. To date, the activity of MSL has been to evaluate a number of possible acquisitions and to study methods of operating laboratories in several States. MSL has leased 6,000 square feet of space in Cleveland to serve as its main laboratory facilities and corporate head offices. Reference is made to item 1 under the heading "Material Contracts" on page 14.

Health Screening

The Company now provides through health screening a comprehensive "health audit" for senior executives of 54 Canadian corporations on an annual basis. Health screening is a planned sequence of procedures and tests designed to aid in the early detection of asymptomatic disease in apparently well individuals. Health screening includes a thorough assessment by a qualified internist to give an analysis of the executive's health status. These results are given to the executive's physician for interpretation. In addition, the Company provides examinations of applicants to 53 insurance companies whose medical officers have approved the use of the Company's services for underwriting purposes. The Company operates screening clinics in Toronto, Montreal, St. Catharines, Hamilton and Kitchener. During 1972 the Company examined approximately 11,000 life insurance candidates and performed approximately 1,200 executive and pre-employment health screens.

Home Care Service

The Ontario Government operates an extensive Home Care Program providing nursing and support care services for patients in their own homes which is designed to reduce the demand for high cost, active treatment hospital beds.

In August 1972 the Company was awarded a contract by the Ontario Government to start up and administer a home care program in Halton County, Ontario. This program is the first Ontario Government contract to private enterprise for direct health care services. The Company subcontracts certain of the work to the Victorian Order of Nurses, the Canadian Red Cross Society and physio and speech therapists. Up to February 15, 1973 approximately 157 individuals have been treated under the program.

Pharmaceuticals

In September 1972, the Company acquired two small Montreal based drug distributors. Reference is made to item 5 under the heading "Material Contracts" on page 14. During 1972 and 1973 the Company also acquired an interest in Canapharm Industries, Inc. ("Canapharm"), which had been incorporated to purchase the assets of two companies engaged in the manufacture and marketing of generic drugs. Canapharm's activities are still in a development phase and to date its operations have not been profitable. Its value in the future will depend on the success of a number of new products to be marketed and no assurance can presently be given as to its future profitability. Reference is made to item 4 under the heading "Interest of Management and Others in Material Transactions" on page 12.

Management and Consulting Services

MDS Professional Services Limited ("Prof") was incorporated in 1972 as a subsidiary of MDS to assist medical and dental practitioners in the planning, development and management of medical buildings, group practices and community health clinics. As a means of developing these services Prof has acquired all the outstanding shares of Leythorn Developments Limited, a design and construction management company, Polycon Development Limited, a contracting company, and Brokers' Consultants Limited, a company offering financial planning services, upon the terms set out in items 2, 3 and 4 under the heading "Material Contracts" on page 14. Prof's activities are in a developmental phase.

Employees

The Company employs a permanent staff of over 400 employees. Because of the scientific nature of the work approximately half of the employees have recognized professional or technical training.

Medical Advisory Board and Medical Consultants

The Company employs or retains the services of 44 specialists who act as medical directors of laboratories or provide diagnostic consulting services in laboratory medicine. These specialists are either physicians specializing in laboratory medicine or are laboratory scientists. A Medical Advisory Board of 15 members is selected from these specialists. The primary responsibility of the Medical Advisory Board is to ensure that the Company maintains medical standards and keeps abreast of new developments in laboratory medicine. In addition 52 other physicians are associated with the Company in health screening, electrocardiography, radiology and other specialized fields.

Government Regulation

In the Province of Ontario, where the Company does most of its laboratory work, the Ontario Health Insurance Plan ("OHIP") an agency of the Ontario Government, is currently paying for in excess of 80% of the laboratory tests performed by the Company. Rather than billing the patient directly, the Company has elected to bill OHIP for services performed and to accept 90% of the current Ontario Medical Association fee schedule as full payment.

The Ontario Government has expressed concern about rising health care costs in the Province and although laboratory fees are only a small portion of the total dollars paid annually by OHIP, it may be assumed that the cost of laboratory services will be given careful scrutiny by the Ontario Government in any effort to improve the effectiveness of provincial health care expenditures or to reduce the cost to the Province of such services.

Late in 1972, The Public Health Act (Ontario) was amended to require medical laboratories to be licensed annually and to conform to certain standards. The Company believes that it will be able to conform to these standards. Provisional licenses have been received and the Company has no reason to believe that licenses will not be issued and renewed in the normal course.

Under The Public Health Act (Ontario) the Director of Laboratory Licenses has broad discretionary powers. Among other powers he may refuse to issue a new license where, in his opinion, there is no public need in an area where it is proposed to establish a new laboratory. Consequently the ability of the Company to expand its laboratory operations by opening new laboratories in Ontario could be restricted.

In the Province of Quebec, where the Company has four laboratory locations, the provincial government does not generally pay for laboratory services performed by private medical laboratories. Under the Public Health Protection Act enacted by the Quebec National Assembly in December 1972, private laboratories are required to be licensed annually. Under the Act, the Company's Quebec subsidiaries are entitled to licenses as of right until December 1973 and the Company has no reason to believe that the licenses will not be renewed in the normal course.

Most of the Company's other operations are regulated by Federal, Provincial or State legislation.

Competition

The medical laboratory business in Canada has in the past been regionalized with each region being dominated by one or two laboratories or by a group of laboratories. Although the Company believes that it has a dominant position in most of the regions in Ontario in which it operates, there is extensive competition. The Company operates four locations in Montreal where there are numerous other medical laboratories offering competitive services and the Company is a small factor in the Montreal market. The Company also faces competition from hospitals and from government agencies such as public health laboratories which provide services similar to those provided by the Company.

Properties

The Company's principal office and laboratory and warehouse is located on leased premises consisting of 27,400 square feet at 18 and 30 Meridian Road, Rexdale, Ontario. The Company's four other major laboratories are located on leased premises. These consist of:

4,200 square feet at 151 and 176 Larch Street, Sudbury, Ontario.
5,200 square feet at 157 Ontario Street and 15 Welland Avenue, St. Catharines, Ontario.
2,300 square feet at 452 Main Street East, Hamilton, Ontario.
1,500 square feet at 4691 Van Horne Avenue, Montreal, Quebec.

A summary of leasehold obligations are set forth in note 10(c) to the Notes to the Consolidated Financial Statements.

SPECULATIVE NATURE OF SHARES

The common shares offered by this prospectus are speculative. Although the Company commenced operations in April, 1969, the Company earned its first profit in its 1971 fiscal year. While it is anticipated that the Company's operations will continue to be profitable, no assurances can be given in this regard. As reflected in the Consolidated Statement of Deficit on page 17, the Company had a deficit of $246,000 at October 31, 1972. Reference is made to the heading "Dividends" on page 9 for restrictions on the payment of dividends on the common shares of the Company.

The Company derives in excess of 80% of its revenue from OHIP, an agency of the Ontario Government, and accordingly its future revenues and profitability could be affected by changes in Government policy. Reference is made to the heading "Government Regulation" on page 6.

Reference is also made to the headings "Pending Legal Proceedings" on page 12 and "Competition" on page 6.

DILUTION

The net tangible book value (excluding "excess of amounts paid over the value of the net tangible assets acquired on the purchase of shares of companies and assets of businesses") of the outstanding common shares of MDS is approximately 24¢ per share. Accordingly, purchasers of the common shares offered hereby will experience an immediate dilution of $4.11 per share when compared to net tangible book value.

CONSOLIDATED CAPITALIZATION OF THE COMPANY

	Authorized	Outstanding on October 31, 1972	Outstanding on February 15, 1973
Bank indebtedness(1)	—	$ 305,202	$ —
Long term debt:			
Notes payable(2)	—	92,500	22,500
10% debentures, due May 15, 1975(3)	—	799,160	799,160
Capital stock(4)(5)			
8% convertible, cumulative, non-voting, non-participating, redeemable preference shares with a par value of $5 each	400,000 shs. ($2,000,000)	55,046 shs. ($275,230)	55,046 shs. ($275,230)
Common shares without par value	3,750,000 shs.	2,106,519 shs. ($3,638,057)	2,106,585 ($3,638,255)

NOTES:

(1) The bank indebtedness at October 31, 1972 was secured by an assignment of accounts receivable. MDS has arranged a new operating line of credit of $1,300,000 as well as a term loan for $600,000 with a Canadian chartered bank. Both loans are secured by an assignment of accounts receivable. The term loan is repayable in equal monthly instalments over five years from the date of advance. Advances under the term loan are to be used to repay certain unsecured notes payable accounted for as "current portion of long term debt" on the Consolidated Balance Sheet on page 16. As part of the loan agreement, a warrant to purchase common shares was issued to that bank (refer to the heading "Rights to Acquire Common Shares" on page 10). In addition to the usual conditions MDS has agreed to maintain a minimum working capital of $250,000 which is defined so as to exclude debt incurred on the purchase of businesses that is more than 90 days from maturity. Repayment of both loans is guaranteed by four subsidiaries.

(2) These notes represent balances payable for acquisitions of shares and assets of laboratory businesses and which bear interest at rates varying from 7% to 8% and are due from December, 1973 to December, 1975. Reference is made to note 7 of the Notes to the Consolidated Financial Statements on page 20 with respect to certain conditions attached to these notes.

(3) These debentures are secured by a floating charge on the undertaking, properties and assets of MDS subject to any security granted for bank indebtedness. The holders of $80,975 principal amount of these debentures have unconditionally waived the receipt of any interest otherwise due to them.

(4) Reference is made to the heading "Rights to Acquire Common Shares" on page 10 for particulars of common shares reserved for issue.

(5) The holders of 13,000 preference shares have indicated their intention to convert such preference shares into 13,000 common shares and to sell such common shares to the Underwriter. Reference is made to the heading "Selling Shareholders" on page 8.

(6) Reference is made to note 10(c) to the Notes to the Consolidated Financial Statements on page 22 for particulars of lease obligations.

(7) The minority interest in Laboratoires MDS Ltée, a consolidated subsidiary, is not a material amount.

PLAN OF DISTRIBUTION

Pursuant to an agreement (the "Underwriting Agreement") dated April 13, 1973 made between MDS, the Selling Shareholders and MerBan Securities Limited (the "Underwriter"), the Selling Shareholders have agreed to sell and the Underwriter has agreed to purchase not later than May 17, 1973, 200,000 issued common shares (the "Underwritten Shares") of MDS offered by this prospectus for a price of $4.00 per share payable in cash to the Selling Shareholders against delivery of share certificates therefore and subject to compliance with all necessary legal formalities. The obligations of the Underwriter under the Underwriting Agreement may be terminated at its discretion on the basis of its assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriter is committed to take up and pay for all the Underwritten Shares if any are taken up.

The common shares of MDS offered by this prospectus will be offered to the public in Ontario and Quebec only through registered securities dealers at a price or prices not exceeding the applicable offering prices to the public set forth on the face page of this prospectus.

COMMON SHARES

The holders of common shares of MDS are entitled to one vote per share at all meetings of shareholders, to receive dividends thereon when and as declared by the board of directors and, subject to the preferential rights attaching to any other shares of MDS, to share rateably in the net assets of MDS in the event of any liquidation, dissolution or winding up. The holders of common shares, as such, have no pre-emptive, conversion or subscription rights. The common shares offered by this prospectus are fully paid and non-assessable.

55,046 8% convertible, cumulative, non-voting, non-participating, redeemable preference shares with a par value of $5 each (the "8% preference shares") of MDS are outstanding. On liquidation, dissolution or winding up of MDS, the holders of the 8% preference shares are entitled to an amount equal to the amount paid up thereon plus all accrued and unpaid dividends, if any, before any amount is paid to the holders of common shares. The holders of the 8% preference shares have the right at any time to convert their shares into common shares on a share for share basis. Reference is made to the heading "Selling Shareholders" on page 8 for particulars of the intended conversion of 13,000 8% preference shares. In the event of default in payment of four quarterly dividends, the holders of the 8% preference shares are entitled to one vote per share at all meetings of shareholders until all dividend arrears are paid.

SELLING SHAREHOLDERS

The names of the Selling Shareholders of the common shares of MDS, the number of common shares now owned by them, the number of common shares to be sold by them and the number of common shares to be owned by them after this offering, directly or indirectly, are set forth in the following table:

Name and Address	Number of Shares owned	Percentage of Class owned	Number of Shares to be sold	Number of Shares to be owned after this offering(1)	Percentage of Class to be owned after this offering(1)
Bansco & Co. No. 6 .... 44 King St. W., Toronto(2)	16,080	0.76	3,500	12,580	0.60
The Charterhouse Group Canada Limited...... 60 Yonge Street, Toronto	16,080	0.76	3,500	12,580	0.60
Rolland M. Clark, MD...................... 220 Woodlea Crescent, Oshawa	3,077	0.15	3,000	77	—
Robert G. Fennimore........................ 30 Fallingbrook Drive, Scarborough	20,700	0.98	9,000	11,700	0.54
Gdn. Ventures Limited....................... 48 Yonge Street, Toronto	532,501	25.28	84,500	433,751	20.59
Alan Grieve................................ 30 Edgar Avenue, Toronto	12,500	0.59	8,000	4,500	0.21
Wilfred G. Lewitt........................... 200 Mineola Road West, Mississauga	113,334	5.38	17,000	93,334	4.40
Jerome F. McElroy.......................... 72 Sir Williams Lane, Islington	115,263	5.47	20,000	92,563	4.39
Pia Morris................................. 7 Hollybrook Crescent, Willowdale	—	—	6,000(3)	—	—

Name and Address	Number of Shares owned	Percentage of Class owned	Number of Shares to be sold	Number of Shares to be owned after this offering(1)	Percentage of Class to be owned after this offering(1)
Michael Murgatroyd........................ 55 Lascelles Boulevard, Toronto	13,069	0.62	7,000(3)	13,069	0.62
Joseph G. Rowney.......................... 31 Aldershot Crescent, Willowdale	5,000	0.24	1,000	4,000	0.19
Edward Rygiel.............................. 25 Artinger Court, Don Mills	30,000	1.42	4,500	25,500	1.21
Slater, Walker of Canada Limited............ Suite 1600, Royal Trust Tower Toronto-Dominion Centre, Toronto	115,545	5.48	20,000	91,845	4.36
Trucena Investments Ltd.................... Suite 2220, Royal Trust Tower Toronto-Dominion Centre, Toronto	24,120	1.14	5,500	18,620	0.88
Ronald H. Yamada......................... 15 Hartfield Road, Islington	67,463	3.20	7,500	58,613	2.78

(1) Pursuant to an agreement dated April 13, 1973 five of the Selling Shareholders have granted to MerBan Capital Corporation Limited, the parent of the Underwriter, an option to purchase all or any part of 25,000 issued common shares of MDS, exercisable, subject to the purchase by the Underwriter of the Underwritten Shares, at any time and from time to time up to April 13, 1974 at a price of $4.25 per share. The figures in the table are based on the assumption that the options on the 25,000 common shares will be exercised.

(2) These shares are beneficially owned by Employees Savings and Profit Sharing Fund of Dominion Foundries and Steel, Limited.

(3) These are common shares to result from the conversion of 8% preference shares.

No part of the proceeds from the sale by the Selling Shareholders of the securities offered by this prospectus will be received by MDS.

PRIOR SALES OF COMMON SHARES

Within the twelve months preceding the date of this prospectus, MDS issued 218,612 common shares. Of these shares, 200,000 were issued for a cash consideration of $5 per share to Diamond Shamrock Canada Ltd. MDS issued 18,546 common shares for a consideration of $6.50 per share as partial payment for the purchase of shares and assets of laboratory businesses. MDS has also issued 66 common shares at $3 per share upon the exercise of an option granted under the Employee Stock Option Plan described under the heading "Rights to Acquire Common Shares" on page 10.

PRINCIPAL HOLDERS OF COMMON SHARES

To the knowledge of MDS, Gdn. Ventures Limited, 48 Yonge St., Toronto, Ontario, was the only shareholder of MDS who owned of record or beneficially, more than 10% of the outstanding common shares of MDS as at February 15, 1973. At such date Gdn. Ventures Limited was the direct beneficial owner of 532,501 common shares representing 25.28% of the common shares then outstanding. Gdn. Management Limited of the same address is the parent company of Gdn. Ventures Limited and as such is deemed to be the indirect beneficial owner of these common shares.

As at February 15, 1973, the directors and senior officers of MDS, as a group beneficially owned, directly or indirectly, 16.3% of the then outstanding common shares of MDS at such date.

Reference is made to the heading "Selling Shareholders" on page 8 for particulars of sales of common shares to be made by Gdn. Ventures Limited and certain directors and senior officers.

DIVIDENDS

Dividends have been paid quarterly at the rate of 40¢ per annum on the 8% preference shares of MDS since issue in September and October 1971 and are not in arrears.

No dividends have been paid on the common shares of MDS since incorporation in 1969. MDS is presently restricted from paying dividends on its common shares except with the consent of the holders of 70% of its out-

standing 10% debentures and the consent of a Canadian chartered bank pursuant to a loan agreement with such bank. Payment of dividends by MDS on its common shares will be considered from time to time by the board of directors on the basis of earnings, financial circumstances and other relevant factors.

ESCROWED SHARES

An aggregate of 903,599 common shares of MDS are held in escrow by Guaranty Trust Company of Canada (the "Escrow Agent") pursuant to an agreement (the "Escrow Agreement") made as of April 13, 1973 between MDS, the Escrow Agent, and the following shareholders of MDS: Diamond Shamrock Canada Ltd., Gdn. Ventures Limited, J. F. McElroy, W. G. Lewitt, Ronald H. Yamada, Alan Grieve, E. K. Rygiel, Dr. Gilbert Hill, Dr. John Nixon, Jane Lind, Joseph Rowney, Dr. Williams Cass and D. M. Phillips.

The Escrow Agreement provides that such common shares may not be released from escrow without the prior written consent of the Ontario Securities Commission and the Regulatory Body in the Province of Quebec having jurisdiction over the sale of securities to the public and also provides that no transfer, hypothecation or other alienation may be made within the escrow without the prior written consent of the said Commission and Regulatory Body.

RIGHTS TO ACQUIRE COMMON SHARES

Employee Stock Option Plan

MDS has adopted an Employee Stock Option Plan pursuant to which options to purchase up to an aggregate of 100,000 common shares of MDS may be granted to officers and employees of MDS. Options to purchase 66,117 common shares have been granted under the Plan and 66 common shares have been issued on the exercise of one such option.

The following options are outstanding under the Plan:

Optionee	Option Price Per Share	Number of Common Shares Under Option	Date of Grant of Option	Date of Expiry of Option
Directors and senior officers of MDS....	¼ cent	26,667	March 5, 1972	May 1, 1975
	$3.00	8,000	October 6, 1972	April 1, 1975
Other employees of MDS..............	$3.00	30,050	October 6-23, 1972 and February 14, 1973	April 1, 1975
	$4.00	1,400	October 20, 1972	April 1, 1975

There was no market for the common shares of MDS on the dates such options were granted nor is there any market for the common shares of MDS at the date hereof.

Pursuant to the agreement with Diamond Shamrock Corporation referred to in item 1 under the heading "Material Contracts" on page 14 MDS has agreed that it will not grant further options under the Plan at a price less than $3 per share with respect to a maximum of 1,950 shares or at a price less than $4 per share with respect to a maximum of 31,933 shares, being the balance of the shares reserved for issue under the Plan.

Other Rights

(a) MDS issued to purchasers of its 10% debentures due May 15, 1975 share purchase warrants entitling the holders to purchase an aggregate of 159,832 common shares of MDS at a price of $5 per share exercisable on or before May 15, 1975. None of such warrants have been exercised at the date hereof.

(b) MDS has issued to a Canadian chartered bank a warrant to purchase 14,400 common shares in connection with a term loan. The warrant is exercisable at $5 per share after January 30, 1975 and on or before January 30, 1978.

(c) In certain circumstances Diamond Shamrock Canada Ltd. has the right to purchase all or any part of 200,000 common shares of MDS at U.S. $5 per share prior to April 4, 1974 and also, subject to certain exceptions, the right to purchase common shares of MDS to maintain a certain percentage interest. Reference is made to item 1 under the heading "Material Contracts" on page 14.

(d) In connection with an acquisition, MDS issued to Main Medical Laboratories Limited a promissory note of MDS in the amount of $200,000. Main Medical Laboratories Limited has the obligation to exchange the note for common shares of MDS at the public offering price in the event MDS makes a public offering of its authorized but unissued common shares prior to May 31, 1973.

(e) The vendors of Polycon Development Limited, Brokers' Consultants Limited and Leythorn Developments Limited may in certain circumstances acquire common shares of MDS. Reference is made to items 2, 3 and 4 under the heading "Material Contracts" on page 14.

(f) Zephirin Piver, a shareholder of Laboratoires MDS Ltée, a subsidiary, has the right to maintain a 5% interest in that company.

(g) The 55,046 outstanding 8% preference shares of MDS are convertible into 55,046 common shares of MDS.

DIRECTORS AND OFFICERS

The names and home addresses in full of the directors and officers of MDS, the offices held by each and their principal occupations are as follows:

Name and Address	Office	Principal occupation
JEROME FRANCIS MCELROY, 72 Sir Williams Lane, Islington, Ontario	Chairman of the Board and Director	Executive of MDS.
WILFRED GEORGE LEWITT, 200 Mineola Road West, Mississauga, Ontario	President and Director	Executive of MDS.
RONALD HIROSHI YAMADA, 15 Hartfield Road, Islington, Ontario	Vice President, Secretary and Director	Executive of MDS.
DR. WILLIAM ANDERSON, 61 Baby Point Crescent, Toronto, Ontario	Director	Pathologist, Toronto General Hospital and University of Toronto.
WILLIAM EDWARD CONWAY, 32400 Fairmount Boulevard, Pepper Pike, Ohio	Director	Executive Vice President of Diamond Shamrock Corporation.
JAMES WILLIAM LYNN FORDHAM, 9204 Creekwood Boulevard, Mentor, Ohio	Director	Vice President of Diamond Shamrock Corporation.
ALAN GRIEVE, 30 Edgar Avenue, Toronto, Ontario	Director	President of Gdn. Ventures Limited.
RALPH HORNER, 266 Douglas Drive, Toronto, Ontario	Director	Vice President of Gdn. Management Limited.
DR. JOHN CHARLES NIXON, 2290 Bowman Road, Ottawa, Ontario	Medical Director and Director	Executive of MDS.
DOUGLAS MENZIE PHILLIPS, 5 Abinger Crescent, Islington, Ontario	Director of Finance	Executive of MDS.
JOSEPH GARNET ROWNEY, 31 Aldershot Crescent, Willowdale, Ontario	Treasurer and Assistant Secretary	Executive of MDS.

During the last five years each of the directors and officers of MDS has been associated in various capacities with the corporation or corporations indicated opposite his name or predecessors thereof, except that:

Prior to May, 1970, Mr. McElroy was Chairman of the Board and President of the Company from its incorporation and prior to April, 1969, was an engineer with International Business Machines Company Limited.

Prior to May, 1970, Mr. Lewitt was President of Cryovac Limited, a subsidiary of W. R. Grace & Company.

Prior to April, 1969, Mr. Yamada was an engineer with International Business Machines Company Limited.

Prior to August, 1970, Mr. Conway was Vice President of Pickands Mather and Co., a subsidiary of Diamond Shamrock Corporation.

Prior to April, 1969, Mr. Grieve was a Vice President of Gdn. Management Limited.

Prior to January, 1970, Mr. Horner was Vice President of United Funds Management Limited.

Prior to February, 1972, Dr. Nixon was Medical Biochemist to the Ottawa General Hospital, and prior to September, 1969 was Medical Biochemist at the National Defence Medical Centre.

Prior to May, 1971, Mr. Phillips was Assistant Treasurer and Controller of John Inglis Company Limited.

Prior to September, 1969, Mr. Rowney was Controller, Treasurer and Assistant Secretary of Canadian Food Products Limited.

Remuneration of Directors and Senior Officers

The aggregate direct remuneration paid by MDS and its consolidated subsidiaries to its directors and senior officers for the last completed financial year of MDS was $234,588, and for the period October 31, 1972 to February 17, 1973 was $70,213. No pension benefits are payable on retirement to the directors or senior officers of MDS except under the Canada Pension Plan.

PROMOTERS

Jerome F. McElroy, Ronald H. Yamada and Gdn. Ventures Limited took the initiative in founding MDS and as such are or have been promoters of MDS as that term is defined in applicable securities legislation. Michael Murgatroyd of 55 Lascelles Boulevard, Toronto, Murray J. Morris of 7 Hollybrook Crescent, Willowdale and Albert L. Cunningham of 3611 Flamewood Drive, Mississauga, former employees of MDS, also took the initiative in founding MDS and as such were the promoters of MDS as that term is defined in applicable securities legislation.

Upon incorporation, Mr. McElroy subscribed and paid for 150,000 common shares of MDS (as presently constituted) at one cent per share. Messrs. Yamada, Murgatroyd, Morris and Cunningham each subscribed and paid for 100,000 common shares of MDS (as presently constituted) at one cent per share. Within four months after incorporation Gdn. Ventures Limited subscribed for 300,000 common shares of MDS (as presently constituted) at eighty cents per share and 13,750 common shares of MDS (as presently constituted) at $4 per share.

PENDING LEGAL PROCEEDINGS

On December 10, 1970 MDS commenced an action by writ number 8485/70 in the Supreme Court of Ontario against Agatronics Limited. MDS alleges that it suffered special damages of $351,861 and general damages of $100,000 because an automated chemical analysis system MDS leased from Agatronics Limited failed to perform to an agreed upon level of acceptability. Agatronics Limited has defended the claim and issued a counterclaim alleging breach of contract and has claimed general damages in the amount of $468,277. MDS has entered a defence to the counterclaim. Messrs. Fasken & Calvin, counsel for MDS, have advised that MDS has a strong defence to the counterclaim. MDS has written off as an extraordinary expense in its accounts the amount of $420,000 which includes the special damages claimed from Agatronics Limited.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The following are the material transactions of the Company within three years prior to the date hereof in which: (i) any director or senior officer of the Company; (ii) any person or company beneficially owning, directly or indirectly, more than 10% of the common shares of the Company; and (iii) any associate or affiliate of the foregoing persons or companies, had a direct or indirect material interest.

1. On May 15, 1970 and June 2, 1970 MDS issued for cash and at par $799,160 10% debentures due May 15, 1975 accompanied by warrants entitling the holders thereof to purchase, on or before May 15, 1975, 159,832 common shares in the capital of MDS at a price of $5 per share.

As an inducement to invest in the 10% debentures, the purchasers of such 10% debentures, other than the shareholders listed below, purchased and were granted options to purchase issued common shares from the shareholders listed below at a price of $2 per share. Such shareholders then invested the proceeds of sale in the purchase of 10% debentures. In addition to its reinvestment of the proceeds of sale of common shares, Gdn. Ventures Limited purchased $67,570 principal amount of 10% debentures on the same terms as other investors.

The following persons and company who were insiders at such date, participated in the sale of common shares, granted options and purchased 10% debentures and warrants:

Name	Debentures purchased	Warrants received	Common shares sold to debenture purchasers	Options granted to debenture purchasers
J. F. McElroy......................	$ 20,263	4,052 shares	10,132	13,068 shares
R. H. Yamada......................	20,263	4,052 shares	10,132	13,068 shares
M. J. Morris........................	20,263	4,052 shares	10,131	13,069 shares
M. Murgatroyd.....................	20,263	4,052 shares	10,131	13,069 shares
A. L. Cunningham..................	158,190	31,638 shares	79,095	—
Gdn. Ventures Limited.............	97,493	19,501 shares	9,979	12,526 shares

Messrs. McElroy, Yamada, Morris, Murgatroyd and Cunningham were directors, officers and/or substantial shareholders of MDS. Gdn. Ventures Limited directly held more than 10% of the common shares of MDS. Messrs. Grieve and Horner, directors of MDS, were shareholders of the parent company of Gdn. Ventures Limited.

2. As part of the arrangement with Diamond Shamrock Corporation described in item 1 under the heading "Material Contracts" on page 14 MDS entered into amended employment contracts dated March 3, 1972 with Messrs. Lewitt, Yamada and McElroy, directors, officers and shareholders of MDS. MDS and each of Messrs. Lewitt, McElroy and Yamada have agreed in such contracts not to give notice of termination of employment which would take effect prior to May 1, 1975, being the minimum terminal date for the supply by MDS of management services to MSL. As part of Mr. Lewitt's amended employment contract he was granted an option to purchase 26,667 common shares of MDS at ¼¢ per share contingent upon his remaining in the employ of MDS or an affiliated company for specified periods.

3. Messrs. William E. Conway and J. Lynn Fordham were appointed directors of MDS on April 5, 1972 following completion of certain transactions with Diamond Shamrock Corporation referred to in item 1 under the heading "Material Contracts" on page 14. Those transactions included the agreement of Gdn. Ventures Ltd. and the officers and directors of MDS to vote their shares of MDS in favour of the election of two directors of MDS who are representatives of Diamond Shamrock Canada Ltd. so long as Diamond Shamrock Canada Ltd. owns more than 5% of the issued common shares of MDS.

4. In May, 1972 MDS purchased 70,000 outstanding common shares of Canapharm Industries, Inc. ("Canapharm") from certain Canapharm shareholders for $87,500 cash. In October, 1972 MDS sold its interests in certain licences and pharmaceutical products, which were recorded on its books at approximately $78,000, to Canapharm in return for a $75,000 floating charge debenture convertible into common shares of Canapharm at $1 per share, a warrant to purchase 50,000 common shares of Canapharm at a price of $2 per share exercisable over eighteen months and a warrant to purchase 50,000 common shares of Canapharm at a price of $2 per share exercisable over two years. In December, 1972 MDS purchased 25,000 outstanding common shares of Canapharm from Mr. McElroy at $1.50 per share and 25,000 outstanding common shares of Canapharm from another Canapharm shareholder at $1.50 per share. Following such transactions MDS owned 24% of the common shares of Canapharm and if its warrants were exercised and its debenture was converted would own 43% of such common shares.

Mr. McElroy was, at the time of these transactions a director, officer and substantial shareholder of Canapharm. Gdn. Ventures was the largest single shareholder of Canapharm at all relevant times.

5. By agreement dated October 9, 1970 between Messrs. McElroy, Yamada, Morris, Murgatroyd and Cunningham and Gdn. Ventures Limited (the "Vendors") and MDS and Roger D. Wilson as trustee (the "Trustee"), 216,666 issued common shares of MDS were sold to the Trustee to be optioned for sale by the Trustee to new key employees of MDS upon the direction of MDS. Options on the said 216,666 issued common shares were granted to nine new key employees between October 9, 1970 and May 31, 1972 and options on 188,000 of such issued common shares have since been exercised.

MATERIAL CONTRACTS

During the past two years the Company has entered into the following material contracts in addition to contracts in the ordinary course of business. Agreements for the purchase of laboratory and other businesses by the Company in which the purchase price did not exceed $150,000 have not been set forth unless otherwise material. Reference is made to the Notes to the Consolidated Financial Statements for a summary of acquisitions.

1. An agreement dated April 5, 1972 between MDS and Diamond Shamrock Corporation ("Diamond Shamrock") and Diamond Shamrock Canada Ltd. Reference is made to the heading "United States Operations" on page 4. Further particulars of this agreement are as follows:

(a) MDS agreed to supply management services to Medical Sciences Laboratories Inc. ("MSL") at approximate cost;

(b) the MSL shares owned by MDS will from time to time be delivered to and held in escrow with the Union Commerce Bank of Cleveland, Ohio, U.S.A. as security for performance by MDS of its obligations to supply management services to MSL;

(c) MDS agreed not to terminate the existing contracts of Messrs. Lewitt, McElroy or Yamada prior to May 1, 1975 without the prior written consent of MSL and Diamond Shamrock;

(d) MDS agreed in the event that it issues, subject to certain exceptions, any additional common shares, to allow Diamond Shamrock Canada Ltd. to purchase at such issue price additional unissued common shares of MDS as necessary to maintain its then percentage interest in the common shares of MDS;

(e) MDS agreed not to compete with MSL and Diamond Shamrock in the medical laboratory business in the United States prior to April 1977.

2. Agreement dated July 27, 1972 between MDS Professional Services Limited ("Prof") and Peter John Ivan Miller, Gerald W. McMaster, John F. Mills and Keith J. Munro, (collectively referred to as the "Polycon Vendors") whereby Prof agreed to purchase effective November 1, 1972 all of the issued and outstanding common shares of Polycon Development Limited ("Polycon") in exchange for 250,000 convertible, redeemable Series A preference shares of Prof and 2,500 common shares of Prof. Prof has the right to reconvey the purchased shares of Polycon to the Polycon Vendors prior to April 30, 1975. Reference is made to note 10(b) of the Notes to the Consolidated Financial Statements on page 22.

3. Agreement dated September 26, 1972 between Prof and Roy W. Craik ("Craik") whereby Prof agreed to purchase effective November 1, 1972 all of the issued and outstanding common shares of Brokers' Consultants Limited ("Brokers") in exchange for 250,000 convertible, redeemable Series D preference shares of Prof and 2,500 common shares of Prof. Prof has the right to reconvey the purchased shares of Brokers to Craik prior to April 30, 1975. Reference is made to note 10(b) of the Notes to the Consolidated Financial Statements on page 22.

4. Agreement dated October 25, 1972 between Prof, Edward Thornley, John Terence Stott and Chriscot Holdings Limited (collectively referred to as the "Leythorn Vendors") whereby Prof agreed to purchase effective November 1, 1972 all of the issued and outstanding common shares of Leythorn Developments Limited ("Leythorn") in exchange for 1,000 convertible, redeemable Series C preference shares of Prof and 2,500 common shares of Prof. Prof has the right to reconvey the purchased shares of Leythorn to the Leythorn Vendors prior to April 30, 1976. Reference is made to note 10(b) of the Notes to the Consolidated Financial Statements on page 22.

5. Agreement dated September 21, 1972 between MDS and Zephirin Piver whereby MDS purchased all of the issued and outstanding shares of Verdun Pharmaceutical Laboratories Limited ("Verdun") and of Paul Maney Laboratories (Quebec) Limited ("Maney") except for certain preferred shares of Maney owned by Verdun. The total purchase price was $258,313 payable by 12,500 common shares of MDS which were valued at $6.50 per share and the balance in cash. Subsequently MDS sold all of its interests in Maney and Verdun to its wholly owned subsidiary, Montreal Medical Laboratory Inc., for a purchase price of $252,701, payable as to $100,000 in cash and the balance by a demand promissory note.

6. Agreement dated October 19, 1972 between MDS and a Canadian chartered bank providing for an operating loan of $1,300,000 and a term loan of $600,000 and the issue to the bank of a warrant to purchase 14,400

common shares of MDS at a purchase price of $5 per share. Reference is made to item (b) under the subheading "Other Rights" on page 10.

7. The Underwriting Agreement described under the heading "Plan of Distribution" on page 7. MDS is a party to the Underwriting Agreement for the purpose of making certain representations to the Underwriter.

8. The Escrow Agreement described under the heading "Escrowed Shares" on page 10.

Copies of the above may be examined at the head office of MDS during normal business hours during the period of distribution to the public of the common shares offered hereby and for a period of 30 days thereafter.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are Clarkson, Gordon & Co., Chartered Accountants, Royal Trust Tower, Toronto Dominion Centre, Toronto, Ontario.

The transfer agent and registrar of the Company's common shares is Guaranty Trust Company of Canada, at its principal offices in Toronto and Montreal.

AUDITORS' REPORT

To the Directors of
MDS Health Group Limited:

We have examined the consolidated balance sheet of MDS Health Group Limited (formerly Medical Data Sciences Limited) and its subsidiaries as at October 31, 1972 and the statements of income, deficit and source and application of funds for the period from incorporation on April 17, 1969 to October 31, 1972. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at October 31, 1972 and the results of their operations and the source and application of their funds for the period from incorporation on April 17, 1969 to October 31, 1972 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Canada
April 4, 1973

(Signed) Clarkson, Gordon & Co.
Chartered Accountants

MDS HEALTH GROUP LIMITED

Consolidated Balance Sheet

($'000 omitted)

October 31, 1972

ASSETS

Current assets:	
Deposit receipts	$ 546
Accounts receivable (note 6)	1,358
Inventory, at lower of cost and replacement cost	264
Prepaid expenses	45
Due from Medical Sciences Laboratories, Inc. (note 10(a))	33
Total current assets	2,246
Investment in shares and debentures of Canapharm Industries, Inc., at cost (note 2)	162
Fixed assets (note 3)	750
Excess of amounts paid over the value of the net tangible assets acquired on the purchase of shares of companies and assets of businesses (note 4)	2,886
Other assets (note 5)	73
Total assets	$6,117

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Bank indebtedness (note 6)	$ 305
Accounts payable and accrued liabilities	553
Current portion of long term debt	639
Income and other taxes payable	62
Total current liabilities	1,559
Long term debt (note 7)	891
Total liabilities	2,450
Shareholders' equity:	
Capital stock (notes 6, 8 and 10)	3,913
Deficit	(246)
	3,667
Total liabilities and shareholders' equity	$6,117

On behalf of the Board:

(Signed) W. G. LEWITT, Director

(Signed) J. F. MCELROY, Director

(See accompanying notes to consolidated financial statements)

MDS HEALTH GROUP LIMITED

Consolidated Statement of Income
($'000 omitted)

	From incorporation on April 17, 1969 to October 31, 1969	Years ended October 31, 1970	1971	1972
Gross sales	$ 168	$2,332	$5,335	$7,203
Less discounts	3	79	427	595
Net sales (note 9)	165	2,253	4,908	6,608
Direct costs:				
Materials	19	262	488	804
Salaries	45	652	1,426	1,813
Distribution and delivery	6	43	116	148
Consultation fees and outside tests	5	76	220	294
Total direct costs	75	1,033	2,250	3,059
Gross margin	90	1,220	2,658	3,549
Indirect costs:				
Administrative salaries	97	662	856	1,203
Building occupancy costs	24	205	310	419
Amortization of leasehold improvements	5	31	31	39
Medical consulting fees	6	122	195	202
Bad debt expense	4	164	55	27
Depreciation on equipment	13	53	54	71
Interest — long term debt	4	66	124	120
— other, net	(25)	(7)	37	(2)
Equipment rental	13	88	162	142
Other	76	491	483	668
Total indirect costs	217	1,875	2,307	2,889
Income (loss) before income taxes and extraordinary items	(127)	(655)	351	660
(Provision for) recovery of income taxes		3	(208)	(323)
Income (loss) before extraordinary items	(127)	(652)	143	337
Extraordinary items (note 11):				
Reduction in income taxes	—	—	208	305
Loss related to AGA laboratory machine	—	(420)	—	—
Write off of investment in shares	—	—	—	(18)
Net income (loss) for the year (note 12)	($ 127)	($1,072)	$ 351	$ 624
Earnings (loss) per common share — before extraordinary items	($0.07)	($0.35)	$0.07	$0.16
— for the year	($0.07)	($0.57)	$0.19	$0.30
Fully diluted earnings (loss) per common share — before extraordinary items	($0.07)	($0.35)	$0.07	$0.15
— for the year	($0.07)	($0.57)	$0.18	$0.28

Consolidated Statement of Deficit
($'000 omitted)

Deficit, beginning of year	—	($ 127)	($1,199)	($ 848)
Net income (loss) for the year	($ 127)	(1,072)	351	624
Dividends paid on preference shares	—	—	—	(22)
Deficit, end of year	($ 127)	($1,199)	($ 848)	($ 246)

(See accompanying notes to consolidated financial statements)

MDS HEALTH GROUP LIMITED

Consolidated Statement of Source and Application of Funds

($'000 omitted)

	From incorporation on April 17, 1969 to October 31, 1969	Years ended October 31, 1970	1971	1972
Funds were provided from:				
Operations —				
Net income (loss) for the year before extraordinary items	($ 127)	($ 652)	$ 143	$ 337
Add charges which did not require an outlay of funds:				
Depreciation on equipment	13	53	54	71
Amortization of leasehold improvements	5	31	31	39
Other	—	28	—	7
Funds provided from operations	(109)	(540)	228	454
Extraordinary items —				
Reduction in income taxes	—	—	208	305
Loss related to AGA laboratory machine net of amortization of leasehold improvements of $104	—	(316)	—	—
Proceeds on sale of fixed assets	—	—	86	17
Issue of common shares	1,547	—	—	1,000
Issue of preference shares	—	—	275	—
Issue of debentures	—	799	—	—
Total source of funds	1,438	(57)	797	1,776
Funds were applied to:				
Reduction of long term debt over one year	1	18	203	603
Purchase of fixed assets	179	481	164	314
Investment in shares of Canapharm Industries, Inc.	—	—	—	88
Payment of dividends on preference shares	—	—	—	22
Purchase of other assets	34	2	108	35
Investment in subsidiaries and divisions:				
Purchase of divisions and subsidiaries less working capital and fixed assets acquired	1,011	1,655	79	271
Less portion of purchase prices satisfied with the issue of:				
Long term debt	(200)	(705)	(5)	(10)
Common stock	(400)	(490)	(70)	(121)
	411	460	4	140
Total application of funds	625	961	479	1,202
Increase (decrease) in working capital for the year	813	(1,018)	318	574
Working capital beginning of year (deficiency)	—	813	(205)	113
Working capital end of year (deficiency)	$ 813	($ 205)	$ 113	$ 687

(See accompanying notes to consolidated financial statements)

Notes to Consolidated Financial Statements
October 31, 1972

1. Accounting policies

The following is a summary of certain significant accounting policies followed in the preparation of the consolidated financial statements. The policies conform to generally accepted accounting principles and have been applied consistently.

(a) The accounts of all subsidiaries are consolidated on a purchase basis from the date of acquisition.

(b) Depreciation is provided on a straight line basis over the estimated useful life of the property. Leasehold improvements are amortized over the lesser of ten years or the length of the lease plus one renewal option.

(c) Costs associated with the development of new locations and with the acquisition of new businesses have been expensed as incurred.

(d) The excess of amounts paid over the value of the net tangible assets acquired on the purchase of shares of companies and assets of businesses is not being amortized in the accounts.

2. Investment in shares and debentures

During the year the company acquired 70,000 common shares of Canapharm Industries, Inc. (14% interest in that company at October 31, 1972) for $87,500. Subsequent to October 31, 1972 the company acquired an additional 50,000 common shares for $75,000 increasing its interest in Canapharm to 24%.

At October 31, 1971, the company had recorded as "deferred business development costs" certain expenditures incurred to develop licences for pharmaceutical products. On October 26, 1972 these licences were sold to Canapharm in return for a $75,000 convertible debenture due October 26, 1977 bearing interest at 7% from October 26, 1975 and warrants to purchase 100,000 common shares of Canapharm at $2.00 per share exercisable as to 50,000 shares up to April 26, 1974 and the balance up to October 26, 1974. This debenture is convertible into common shares of Canapharm at $1.00 per share up to October 26, 1975. The expiry dates of the warrants and of the conversion rights attached to the debenture accelerate when Canapharm offers at least 100,000 unissued common shares in a public offering.

Canapharm is at an early stage in its development. Its value in the future will depend on the success of a number of new products to be marketed.

3. Fixed assets

	($'000 omitted)		
	Cost	Accumulated depreciation and amortization	Net book value
Land	$ 22		$ 22
Buildings	14	$ 1	13
Equipment and furniture	770	301	469
Leasehold improvements	535	289	246
	$1,341	$591	$750

4. Acquisition of new businesses

	From incorporation on April 17, 1969 to October 31, 1970	Years ended October 31, 1971	1972
Type of purchase—asset	4	2	3
—shares (100%)	4	—	3
Number of businesses acquired	8	2	6
Net assets on sellers' books (b)	$ 488,335	$ 35,599	$147,512
Portion of purchase price ascribed to goodwill	$2,510,924	$ 79,401	$270,814
Consideration paid—			
Cash	$1,204,359	$ 40,000	$249,903
Debt (e)	905,000	5,000	46,000
Common shares	890,000	70,000	120,550
	$2,999,359	$115,000	$416,453
Number of common shares issued	199,669	10,769	18,546

(a) All businesses acquired were medical laboratories with the exception of two companies acquired in 1972 which market pharmaceuticals.

(b) No goodwill existed on the sellers' books with the exception of one company acquired in 1972 which carried goodwill at $64,964 on its books.

(c) The only adjustment required on consolidation in order to state net assets on the sellers' books at fair value occurred in 1972 when $8,500 was allocated from land and buildings to goodwill.

(d) In all instances the results of operations of the acquired businesses are included in the consolidated statement of income of the company from the date of purchase.

(e) Debt issued for acquired businesses had payment terms that extended to 1975 bearing interest from 0% to 8%.

5. Other assets

	($'000 omitted)
Premises rent deposits	$40
Equipment lease deposit, refundable in 1974	28
Other	5
	$73

6. Bank indebtedness

The present bank indebtedness is secured by an assignment of accounts receivable. The company has arranged a new operating line of credit of $1,300,000 as well as a term loan for $600,000 with its bankers. Both loans are to be secured by an assignment of accounts receivable. The term loan is to be repaid in equal monthly instalments over its five year term. As part of the loan agreement certain warrants to purchase common shares were granted to the bank (refer to note 8(b)). In addition to the usual conditions the company has agreed to maintain a minimum working capital of $250,000 which is defined so as to exclude debt incurred on the purchase of businesses that is more than 90 days from maturity.

7. Long term debt

	($'000 omitted)
7½% notes, due December 6, 1973 (a)	$ 80
7% note, due May 31, 1974	5
8% notes, due December 15, from 1973 to 1975	7
10% debentures, due May 15, 1975 (b)	799
	$891

(a) These notes will become due at the earlier of the date noted above, or 60 days after any issue to the public of any shares or other securities of the company. The offering of shares contemplated by this prospectus will make the amount currently payable.

(b) These 10% debentures are secured by a floating charge on the company's undertaking, properties and assets. As among holders of the 10% debentures, holders of $259,165 principal amount have agreed to postpone their claim for any redemption until all monies due to the other holders of the 10% debentures have been paid. Holders of $80,975 principal amount of 10% debentures have unconditionally waived the receipt of any interest otherwise due to them.

8. Capital stock

Authorized:

400,000 8% convertible, cumulative, redeemable preference shares with a par value of $5.00 per share

3,750,000 common shares without par value

Issued:

55,046 preference shares	$ 275,230
2,106,519 common shares	3,638,057
	$3,913,287

(a) Preference shares

The company has the right to redeem the preference shares at the earlier of September 1, 1973 or the date of a receipt from the Ontario Securities Commission for a final prospectus relating to a public offering through an underwriter of common shares of the company at a price of at least $5 per common share.

At any time prior to redemption the owners of outstanding preference shares may convert them on a one-for-one basis into common shares.

(b) Potential issues of common shares

Arising from	Number of common shares	Issue price	Terms
Employee Stock Option Plan......	38,050	$3.00	Under the Employee Stock Option Plan, which has been approved by shareholders, 100,000 common shares have been reserved. As at October 31, 1972, options to purchase 56,117 common shares had been granted and in February 1973 options were granted to purchase an additional 10,000 common shares. The options are exercisable at various dates; however, all options must be exercised by May 1, 1975. By the agreement with Diamond Shamrock (refer to note 10(a)) the company may not grant additional options of more than 1,950 shares at a minimum price of $3.00 per share and 31,933 shares at a minimum price of $4.00 per share.
	26,667	¼¢	
	1,400	$4.00	
	66,117		
Diamond Shamrock agreement.... (refer to note 10(a))	200,000	U.S. $5.00	Must be subscribed for prior to April 5, 1974, consideration to be in the form of MSL shares.
10% debentures payable..........	159,832	$5.00	Warrants are exercisable up to May 15, 1975.
Bank loan agreement............. (refer to note 6)	14,400	$5.00	A warrant to purchase 14,400 common shares exercisable after January 30, 1975 and on or before January 30, 1978 was issued to a Canadian chartered bank.
Convertible preference shares......	55,046	$5.00	Convertible on a one-for-one basis at any time.

The company may also be required to issue common shares as follows:

(i) $200,000 of notes payable included in current portion of long term debt on the balance sheet must be converted into common shares in the event of a public underwriting of authorized but unissued common shares, the number of shares being determined by dividing the then principal outstanding by the then issue price per share. The offering of shares contemplated by this prospectus does not cause conversion of these notes.

(ii) MDS Professional Services Limited agreements (refer to note 10 (b)).

(c) Dividend restrictions

The company is presently restricted from paying dividends on its common shares in accordance with the terms of its outstanding 10% debentures and by the terms of its loan agreement with a Canadian chartered bank.

9. Pro forma unaudited combined net sales

The following table has been prepared to illustrate what net sales would have been had all the businesses acquired by the company been operated by it from April 17, 1969. Where a constituent business did not have an October 31 fiscal period end, appropriate adjustments have been made to the historical data.

	($'000 omitted)
1969 (6½ months).............	$1,351
1970..........................	3,439
1971..........................	5,321
1972..........................	6,869

10. Commitments

(a) During 1972 the company entered into a number of agreements with a U.S. corporation, Diamond Shamrock Corporation (Diamond U.S.) and its Canadian subsidiary Diamond Shamrock Canada Ltd. (Diamond Canada). Under the terms of the management services agreement the company is committed for a minimum period of three years from April 5, 1972 to provide management services to Medical Sciences Laboratories, Inc. (MSL) a newly incorporated Delaware corporation, which has been formed to establish and operate a laboratory business in the U.S. Diamond Canada purchased 200,000 shares of the company for $1,000,000 and has agreed to subscribe prior to April 5, 1974, for up to an additional 200,000 shares of the company at a price of U.S. $5.00 per share to be paid for by shares of MSL. The agreement requires Diamond U.S. to subscribe for up to U.S. $2,000,000 and Diamond Canada to subscribe for up to U.S. $1,000,000 of MSL shares as and when required for the development of MSL. The MSL shares subscribed for by Diamond Canada are to be exchanged by Diamond Canada for common shares in the company at a price of U.S. $5.00 per share. In this way the company will acquire an interest in MSL equal to one half the interest held by Diamond U.S. A condition of the share exchanges is that at the times the company is to have minimum working capital of $250,000 which is defined so as to exclude debt incurred on the purchase of businesses that is more than 90 days from maturity. If the company does not then have such minimum working capital the exchange may be deferred by Diamond Canada until the company again has the minimum required working capital. As security for performance by the company under the management services agreement, any shares of MSL owned by the company will be held in escrow until at least April 4, 1975. As at October 31, 1972, no shares of MSL had been offered to the company for exchange.

(b) During the year, MDS Professional Services Limited (Prof), a newly incorporated subsidiary, entered into Agreements to purchase all the outstanding shares of Polycon Development Limited, Brokers' Consultants Limited and Leythorn Developments Limited. Although the amount attributable by Prof to the issued convertible redeemable preference shares (501,000 at $1.00 each) and common shares (7,500 at $1.00 each), as a result of the purchases was $508,500 at the effective date, November 1, 1972, the final purchase prices, if paid, could differ substantially from $508,500 because the prices are related to formulae based on future earnings. It is not possible to indicate at this time the ultimate purchase cost, or what portion, if any, of the cost will be attributable to net tangible assets. The preference shares are to be converted into common shares of Prof over a five year period beginning April 30, 1975 for two purchases and over a five year period beginning April 30, 1976 for the third purchase, all on a formula basis related to earnings and net assets of the purchased companies, on a company by company basis. The Prof common shares must then be offered for sale to MDS Health Group Limited who must purchase them for cash (of $1.00 per share) or, in certain circumstances, in part by cash and in part by the issue of common shares of MDS Health Group Limited. Under the terms of the Agreements, the redemption feature of the Prof preference shares may be satisfied, for two purchases until April 30, 1975 and for the third purchase until April 30, 1976, by the transfer by Prof of the outstanding shares acquired under the Agreements to the preference shareholders in exchange for their Prof preference shares.

(c) Under premise and equipment leases entered into by the company and its subsidiaries up to October 31, 1972, the companies incurred lease expenses of $328,000 in 1972 and are obliged to make minimum payments of approximately $370,000 in 1973, $278,000 in 1974, $241,000 in 1975, $163,000 in 1976, $132,000 in 1977 and $222,000 in total over the period 1978 to 1982.

11. Extraordinary items

The extraordinary items of $305,000 in 1972 and $208,000 in 1971 represent the tax benefits arising from an accounting loss carry forward from 1970 and 1971 which was not reflected in the accounts in those periods.

The extraordinary item of $18,000 in 1972 represents the write off of the remaining investment in shares of a company that owns a building formerly occupied by a subsidiary. As this former investment is not a recurring factor in the evaluation of the ordinary operations of the company it has been reflected as an extraordinary item.

The extraordinary item of $420,000 in 1970 is described in note 13.

12. Earnings per common share

Earnings per common share have been calculated using a weighted average number of shares outstanding during the year. Fully diluted earnings per common share have been calculated to show the dilutive effect, if any, of conversion of preference shares, conversion of notes, exercise of warrants and the exercise of stock options.

13. Contingent liabilities

In 1970 the company experienced costs in connection with an AGA laboratory machine that could not be brought to a satisfactory operational level. The related costs and estimated costs were reflected in that year as an extraordinary item in the consolidated statement of loss. The company has commenced a legal suit to recover specific costs of $351,861 and general damages of $100,000. A counterclaim of $468,277 has been entered in this action. Counsel have advised that the company has a strong defence to the counterclaim.

14. Subsequent events

On December 15, 1972 the company purchased a business and its assets for $27,500, $15,000 of which was paid in cash and the balance by a 7½% promissory note for $12,500 due on December 15, 1975.

Reference is made to notes 2, 7(a), 8(b) and 10(b) for other subsequent events.

By articles of amendment dated February 26, 1973 the name of the company was changed from Medical Data Sciences Limited to MDS Health Group Limited.

PURCHASER'S STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Sections 64 and 65 of The Securities Act (Ontario) provide, in effect, that where a security is offered in the course of distribution to the public:

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor or his agent not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by him or his agent, and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by him or his agent.

Reference is made to the aforesaid Act for the complete text of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

Dated: April 13, 1973

CERTIFICATE OF THE COMPANY

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of The Securities Act (Ontario), under the Securities Act (Quebec) and by the respective regulations made under such Acts.

(Signed) W. G. Lewitt
President

(Signed) D. M. Phillips
Director of Finance

On Behalf of the Board of Directors

(Signed) J. C. Nixon
Director

(Signed) R. Horner
Director

Promoters

(Signed) J. F. McElroy

(Signed) R. Yamada

Gdn. Ventures Limited
per (Signed) P. E. Roode

CERTIFICATE OF UNDERWRITER

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part VII of The Securities Act (Ontario), under the Securities Act (Quebec) and by the respective regulations made under such Acts.

MerBan Securities Limited

By: (Signed) Andrew Sarlos

By: (Signed) George H. Montague

The only person having an interest, either directly or indirectly, to the extent of 5% in the capital of MerBan Securities Limited is MerBan Capital Corporation Limited. The following includes the names of every person having an interest, either directly or indirectly, to the extent of 5% in the capital of MerBan Capital Corporation Limited: Acres Limited, Canadian General Securities Limited, Guaranty Trust Company of Canada, Traders Group Limited and G. D. Elliott, as Trustee.